



NOTICE TO MEMBERS

No. 2013 - 133

May 16, 2013

REQUEST FOR COMMENTS

LISTING OF NEW OPTION EXPIRATIONS: WEEKLY OPTIONS AMENDMENTS TO RULES B-5, B-6 AND B-10 AND TO THE OPERATIONS MANUAL OF CDCC

The Board of Directors of Canadian Derivatives Clearing Corporation (CDCC) approved amendments to Rules B-5, B-6 and B-10 and to the Operations Manual of CDCC. The purpose of the proposed amendments is to accommodate the launch of new option expirations proposed by Montreal Exchange on December 5, 2012 (Request for comments Circular 161-2012).

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

Process for Changes to the Rules

CDCC is recognized as a clearing house under section 12 of the *Derivatives Act* (Québec) by the Autorité des marchés financiers (AMF).

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

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:

*M^e Pauline Ascoli
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*

Canadian Derivatives Clearing Corporation	
The Exchange Tower	800 Victoria Square
130 King Street West, 5 th Floor	3 rd Floor
Toronto, Ontario	Montréal, Québec
M5X 1J2	H4Z 1A9
Tel. : 416-367-2463	Tel. : 514-871-3545



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

M^e Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
Tour de la Bourse, P.O. Box 246
800 Victoria Square, 22nd Floor
Montréal, Québec H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca

For any question or clarification, Clearing Members may contact the CDCC Member Services.

Glenn Goucher
President and Chief Clearing Officer

Canadian Derivatives Clearing Corporation

The Exchange Tower
130 King Street West, 5th Floor
Toronto, Ontario
M5X 1J2
Tel. : 416-367-2463

800 Victoria Square
3rd Floor
Montréal, Québec
H4Z 1A9
Tel. : 514-871-3545



**LISTING OF NEW OPTION EXPIRATIONS: WEEKLY OPTIONS
AMENDMENTS TO RULES B-5, B-6 AND B-10 AND TO THE OPERATIONS MANUAL
OF CDCC**

A. Overview

As announced on December 5, 2012 (Request for comments Circular 161-2012), Bourse de Montréal Inc. (the “Bourse”) proposes to list weekly options. Weekly options are identical to monthly options and perform in the same way, except that they exist only for a period of eight (8) days. They are listed for trading every Thursday and expire eight (8) days later, or the Friday of the following week (subject to change on statutory holidays). CDCC hereby proposes to amend its rules to accommodate the launch of these new option expirations.

B. Analysis

Nature and Purpose of Proposed Changes:

Rule B-5 of CDCC’s Rules provides for options contract specifications. Currently, CDCC only clears monthly options. CDCC hereby proposes to modify Rule B-5 in order to replace the notion of “month of expiration” by the notion of “Expiration Date” to accommodate weekly options.

Rule B-6 of CDCC’s Rules is applicable to American and European Style Options where the underlying Interest is a class of shares (“Stock Options”). Currently, CDCC only clears monthly Stock Options. CDCC hereby proposes to modify Rule B-6 in order to add the notion of “Expiration Date” for both monthly and weekly Stock Options.

Rule B-10 is applicable to European Style Index Options where the underlying Interest is an Index group (“Index Options”). Currently, CDCC only clears monthly Index Options. CDCC hereby proposes to modify Rule B-10 in order to amend the definition of “Expiration Date” that applies only to monthly Index Options to provide for both monthly and weekly Index Options.

Additionally, CDCC hereby proposes to amend its Operations Manual as follows:

- Add a definition of “Weekly Options” under Section 1 (Preamble and Definitions);
- Add the timelines applicable to weekly options under Section 2 (Time Frames); and
- Amend Section 6 (Exercises, Tenders, Assignments and Delivery) to accommodate both monthly and weekly options.

(The “Proposed Amendments”)

Description and Analysis of Impacts:

The Proposed Amendments would have operational impacts on CDCC and on its Clearing Members since the expiry process would be run every week instead of only once per month, as it is currently the case for monthly options. Because the expiry process is run after trading hours, additional resources might be needed at CDCC and at the Clearing Members to process expiring weekly options.



The Proposed Amendments would have limited risk impacts on CDCC since weekly options are identical to monthly options except for their expiration dates. Thus, margin requirements would be computed in the same way for both monthly and weekly options. Total CDCC margin is not anticipated to increase significantly since weekly options generally have lower premiums than monthly options and because the anticipated increase in option open interest resulting from the proposed launch of weekly options should be small compared to actual monthly option open interest. For these reasons, the incremental impact on liquidity risk should not be significant.

The Proposed Amendments would benefit to Clearing Members, market participants and derivatives and financial markets since it would increase the offer for options that can be centrally cleared. Additionally, Clearing Members could benefit from potential cross-margining reduction at CDCC from having more exchange-traded options in the same accounts.

Drafting Process:

The Proposed Amendments were elaborated through an internal process following the proposed amendment to Rule Six of the Bourse.

Impacts on Technological Systems:

Because weekly options are identical to monthly options except for their expiration dates, the Proposed Amendments should have no impact on the technological systems of CDCC and its Clearing Members.

However, a minor change would have to be made in the messaging system between the Bourse and CDCC to ensure that the full expiration date is duly communicated.

Benchmarking:

The Proposed Amendments are aligned with the operations of other global central counterparties which are active in the options markets.

Options Clearing Corporation ("OCC") offers clearing services for weekly options. Rule 801 of the OCC rules provides for the exercise of options.

Reference: http://www.optionsclearing.com/components/docs/legal/rules_and_bylaws/occ_rules.pdf

Eurex Clearing AG ("Eurex") also offers clearing services for weekly options to different exchanges. Part 3 (Clearing of Options Contracts) of Chapter II (Transactions Concluded at Eurex Deutschland and Eurex Zürich (Eurex Exchanges)) of the Clearing Conditions for Eurex within the Rules and Regulations of Eurex provides for the exercise options.

Reference:

https://www.eurexclearing.com/blob/clearing-en/51612-136778/238376/22/data/clearing_conditions_en_ab_16_04_2013.pdf.pdf

Public Interest:

The Proposed Amendments are not contrary to the public interest.

C. Process



The Proposed Amendments were approved by the CDCC Board and are transmitted to the *Autorité des marchés financiers* in accordance with the self-certification process and to the Ontario Securities Commission for information. The proposed amendment and analysis are also be submitted for approval to the Bank of Canada in accordance with the Oversight Regulatory Agreement.

D. Attached Documents

Amended Rules B-5, B-6 and B-10 and Operations Manual of CDCC



CANADIAN DERIVATIVES CLEARING CORPORATION

RULES

VERSION OF ~~APRIL 1~~ST, 2013

RULE B-5 OPTIONS CONTRACT SPECIFICATIONS

Section B-501 Designation of Options

Options shall be designated by reference to the Underlying Interest, the ~~month-of-expiration~~ Expiration Date, the Exercise Price and the Type and Style of Options.

Section B-502 Approval of Underlying Interest

The Underlying Interest of an Option issued by the Corporation and the Unit of Trading of that Underlying Interest shall be approved by the Board following the recommendation of one or more Exchanges.

Section B-503 Withdrawal of Approval of Underlying Interest

Whenever the Board determines that an Underlying Interest previously approved for any reason should no longer be approved, the Corporation shall instruct each Exchange not to open for trading any additional Series of Options of the Class of Options covering that Underlying Interest and to prohibit any Opening Purchase Transaction in Options of that Class of Options, except as such Exchange shall deem necessary.

Section B-504 Terms of Options

- (1) The ~~month-of-expiration~~ Expiration Date and Exercise Price of Options of each Series of Options shall be determined by the Exchange on which they are traded subject to the agreement by the Corporation. The Exercise Price of each Series of Options shall be fixed at a price which is reasonably close to the price at which the Underlying Interest is traded in the relevant markets at the time such Series of Options is first opened for trading. Additional Series of Options of the same Class of Options may be opened as the market price of the Underlying Interest moves substantially from the initial price or prices.
- (2) The Unit of Trading and the Exercise Price initially established for a Series of Options by the Exchange are subject to adjustment in accordance with these Rules. When adjustments have been made, notice thereof shall be promptly given by each Exchange on which it is traded to all Clearing Members and the adjusted Unit of Trading and the adjusted Exercise Price shall be posted on the trading floor on which the Series of Options is traded.

RULE B-6 STOCK OPTIONS

This Rule B-6 is applicable to American and European Style Options where the Underlying Interest is a class of shares (a “Stock”). Such Options are referred to in this Rule B-6 as “Stock Options”.

Section B-601 Definitions

Notwithstanding Section A-102 for the purposes of Stock Options the following terms shall have the meanings specified:

“Canadian Exchanges” –The Toronto Stock Exchange and the TSX Venture Exchange.

“Expiration Date” – the third Friday of the month or, in the case of weekly Options, the last trading day, which is the Friday of the week following the listing or, if it is not a Business Day, the first preceding Business Day.

“Market Capitalization” – the capitalization of the Underlying Interest as calculated by the following formula: the number of outstanding common shares, as determined by the Primary Exchange, multiplied by the closing price on the Primary Exchange.

“North American Volume” – for the purposes of Option eligibility and deficiency this will include trading volume from the Montréal Exchange (MX), The Toronto Stock Exchange (TSX), the TSX Venture Exchange (TSXVN), the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), and the National Association of Securities Dealers Automated Quotations (NASDAQ).

“Primary Exchange” - The main exchange on which a given stock is listed. The stock may be listed on other exchanges as well; however there can only be one Primary Exchange.

“Underlying Interest”-Stocks meeting the criteria described in this Rule.

“Unit of Trading”-100 shares of the Underlying Interest, unless otherwise designated.

Section B-602 Approval of Underlying Interest

- (1) The Stocks underlying the Options issued by the Corporation shall be approved by the Board based on criteria described in Section B-603 of the Rules.
- (2) No more than one Class of Options shall be approved for any one corporation unless the Board considers it necessary or advisable, as a temporary measure, that there be additional Classes of Options.

Section B-603 Criteria for Eligibility of Stock Options

- (1) In considering whether any Stock should be approved as the Underlying Interest of a Stock Option, the Board, in those circumstances where Section B-605 does not apply, shall ensure that prior to being approved as an Underlying Interest the Stock meets all of the following criteria:
 - (a) the Stock is listed on a Canadian Exchange;

RULE B-10 EUROPEAN STYLE INDEX OPTIONS

This Rule B-10 is applicable only to European Style Options where the Underlying Interest is an Index group. Such Options are referred to in this Rule B-10 as “Index Options”.

Section B-1001 Definitions

Notwithstanding Section A-102 for the purpose of European Style Index Options the following terms shall have the meanings specified:

“Aggregate Current Value” - The level of an Index at the opening of trading on the Expiration Date of the Option multiplied by \$1.00 and by the number of Units of Trading.

“Aggregate Exercise Price” - the Exercise Price of an Option multiplied by the number of Units of Trading of the Underlying Interest covered by the Option.

“Call” - an exchange-traded European Style Option which gives the holding Clearing Member the right to receive from the Corporation on the Expiration Date the Call Exercise Settlement Amount.

“Call Exercise Settlement Amount” - The cash difference when the Aggregate Exercise Price is deducted from the Aggregate Current Value.

“Exercise Settlement Date” - the Business Day following the Expiration Date.

“Expiration Date” - the third Friday of the month or, in case of weekly Options, the day following the last trading day, which is the Thursday of the week following the listing, or if it is not a Business Day, the first preceding Business Day.

“Index” - a securities index specified by an Exchange which is determined by the inclusion and relative representation of the Current market prices of a group of securities.

“Put” - an exchange-traded European Style Option which gives the holding Clearing Member the right to receive from the Corporation on the Expiration Date the Put Exercise Settlement Amount.

“Put Exercise Settlement Amount” - The cash difference when the Aggregate Current Value is deducted from the Aggregate Exercise Price.

“Underlying Interest” - the Index which is the subject of the Option.

“Underlying Security” - any of the securities included in an Index underlying a class of Index Options.

“Unit of Trading” - 10 units.

Section B-1002 Exercise Prices

(Deleted)

Section B-1003 Trade Reporting of Options Transactions



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

OPERATIONS MANUAL

VERSION OF ~~JANUARY 18~~, 2013

PREAMBLE AND DEFINITIONS

“OTCI Equity Options” – over the counter options on an equity, bearing characteristics that differ from Exchange traded Options and are cleared by CDCC through *Converge*.

“Position Transfer” – this is the CDCC Clearing Application function to move a position from one Clearing Member to another.

“Production Schedule” – sum of time lines that are followed by CDCC, as set forth in Section 2 of this Operations Manual.

“Request for Standard vs Mini Offset” – the request by a Clearing Member, in such form as prescribed by CDCC, to offset one (1) or more Long Position(s) on a Standard Futures Contract against the equivalent number of Short Positions on the corresponding Mini Futures Contract (totalling the same quantity of the Underlying Interest in accordance with the ratio prescribed in the Contract Specifications of the Mini Futures Contract), having the same Delivery Month and booked in the same Clearing Member’s account, or the other way around.

“Running Repurchase Transaction” – a Repurchase Transaction with respect of which the Open Leg has already settled at the time of the relevant report.

“Secured Website” – Clearing Members only secured web site that requires a sign on and password, where CDCC publishes Operational Notices as well as documents that are meant only for the Clearing Members.

“Specific Deposit” – a Put Escrow Receipt, a Call Underlying Interest Deposit or a Futures Underlying Interest Deposit which are accepted by CDCC as Underlying Interest Equivalent to cover a specific Short Position.

“Standard Futures Contract” – a Future in relation to which a Mini Futures Contract exists.

“Tenderer” – a Clearing Member that holds a Short Position in a particular Series of Futures and submits a Tender Notice, or is deemed to do so in accordance with the Rules, to CDCC.

“Unsettled Items” – any delivery of the Underlying Interest of an Option that has not been settled at the Central Securities Depository.

“Weekly Options” – [Options that expire on any Friday, other than the third Friday of the month.](#)

TIME FRAMES

TIME FRAMES FOR ON-LINE ACCESS (continued)

WEEKLY OPTIONS

CDCC Clearing Application available for:	7:00 a.m.
➤ Trade corrections	to 8:00 p.m.
➤ Open Position changes	
➤ Position Transfers	
➤ Changes to Automatic Exercises	
CDCC Clearing Application shutdown:	8:00 p.m.
➤ Close of Business	
Reports available (FTP Download):	9:45 p.m.
➤ Options Exercised and Assignment Report (MT02)	
➤ Other reports and files also available	

FIFO PERIOD

Activity	Deadlines
Daily reporting by Clearing Members of the Long Positions in each of their accounts in chronological order	5:30 p.m.
Submission of Tender Notices	5:30 p.m.

PLEDGING

Clearing Members must input requests for deposit or withdrawal of Acceptable Collateral on the pledging screen of the CDCC Clearing Application.

CDCC monitors the pledging screens between 9:00 a.m. and 3:30 p.m. on Business Days.

CDCC verifies the validity of each deposit made by Clearing Members and ensures that withdrawals do not create deficits in the Clearing Members' accounts (Margin, Clearing Fund or Difference Fund). Any request for the withdrawal of a Specific Deposit should be entered prior to when the intra-day margin call process runs as deposits are valued at this time. Any withdrawal of this type entered after such time will not be processed as such withdrawal cannot be properly valued.

The entries on the pledging screen of the CDCC Clearing Application are matched by CDCC to corresponding entries on the reporting system of the relevant Central Securities Depository.

In some cases an exchange of document at a CDCC Office by the Clearing Members (accompanied by a screen print of the entry bearing the Clearing Member's stamp) may be accepted by CDCC as constituting a physical deposit or withdrawal.

After performing all the validation processes, CDCC confirms within the CDCC Clearing Application the Clearing Members' deposits and/or withdrawals.

EXERCISES, TENDERS, ASSIGNMENTS AND DELIVERIES

EXPIRY PROCEDURES

Operations Notices are sent to Clearing Members setting forth the expiry procedures and it is the responsibility of Clearing Members to ensure that they have adequate processes in place to meet requirements and timelines prescribed by CDCC.

OPTIONS

For all information pertaining to the Option expiry procedures, Clearing Members should refer to the Operational Notices which are issued ~~approximately two (2) weeks~~ prior to the Expiration Date.

CDCC's Responsibilities on Expiry Saturday

1. Review/modify Underlying Interest prices and notify the Clearing Members of any changes.
2. Notify Clearing Members (via e-mail) of any changes in the Production Schedule.
3. Notify Clearing Members (via e-mail) of the status of expiry processes.
4. Assist Clearing Members.

Clearing Members' Responsibilities on Expiry Saturday

1. Ensure that the staff responsible for expiry is familiar with all expiry procedures and processes.
2. Validate entries using the Inquiry Screens or the relevant reports:
 - a. Verify that all Open Positions and adjustments match internal records, enter any new Transaction or Open Position adjustments accordingly.
 - b. Verify that the number of Options that will be automatically exercised on Expiration Date are correct.
 - c. For any changes, indicate on the Expiry Response Screen under the "Override" column the total number of Options for each Series of Options to be exercised.
 - d. Verify any Out-Of-The-Money Options or At-the-Money Options to be exercised and enter the number of Options under the "Override" column.
3. Validate changes using the reports and/or the on-line access to CDCC Clearing Application (in accordance with timeframes set forth in Section 2 of this Operations Manual).
4. If required, make any allowed modifications (in accordance with timeframes set forth in Section 2 of this Operations Manual).

Daily Expirations (other than Expiry Saturday)

When CDCC receives Underlying Interests' closing and opening prices from the relevant Exchange, the prices are specified on the relevant Expiry Report and are used to determine the In-the-Money Options and the Out-of-the-Money Options.

Clearing Members have until the Close of Business on any Business Day up to the Expiration Date to submit an Exercise Notice with respect to American Style Options to CDCC. European Style Options can only be exercised on their Expiration Date.

OTCI Options can expire on any Business Day.

Typically, exercise instructions must be entered online on the CDCC Clearing Application by Clearing Members. However, if unavailable, the following manual process can be used to submit Exercise Notices to CDCC: