



NOTICE TO MEMBERS

No. 2004 - 065

November 4, 2004

Rule Amendment

CDCC Rule A-7

The above Rule amendment was approved by the Board of Directors of Canadian Derivatives Clearing Corporation (CDCC) and by the Autorité des marchés financiers (decision 2004-SMV-0156).

This amendment is in effect commencing, Tuesday, March 1, 2005.

A brief description of the change is listed below. The complete section is attached and this change will be included in the version of the Rules available on CDCC's web site (www.cdcc.ca) on March 1, 2005.

Rule A-7, Section A-709 – Forms of Margin

The Rule was revised to increase the minimum capital requirement to \$50,000,000 (Canadian) and to eliminate the option for a clearing member to deposit a parent company's credit as collateral at CDCC.

Please note that the timing of the implementation of this change coincides with the next due date for replacement of Letters of Credit.

If you have any questions or concerns, please contact your local CDCC office.

Michel Favreau
Senior Vice President &
Chief Clearing Officer



Section A-709 Forms of Margin

Required Margin may be deposited with the Corporation 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. 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 mature within one year of their deposit, which are freely negotiable and which shall be valued at a discounted rate to their market value, to be determined in the Operations Manual for provincial and federal government of Canada Securities; provided, however, that Securities of any government other than a provincial or the federal government of Canada that may, from time to time, be accepted by the Corporation as a form of Margin, shall also be valued at a rate specified in the Operations Manual and expressed by the Corporation as a percentage to be set forth in the Operations Manual.. Such valuation rate shall be applied to the Market Value of the relevant Securities. “Market value” as used in this section 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 not less than 90% of their face amount.

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.

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.

Canadian Derivatives Clearing Corporation

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(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 and which is specified in the Operations Manual of the Corporation. 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.

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(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 (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 Exchange, the previous closing price is less than \$10 on any 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.
- (6) **Other Forms of Margin Deposit** - The Corporation may from time to time accept other forms of Margin deposit in accordance with its operating policies then in effect. 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.

Amended 6/91, 9/92, 7/97, 9/98, 3/05

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