



NOTICE TO MEMBERS

No. 2006 – 086

June 30, 2006

REQUEST FOR COMMENTS

CLEARING OF OVER-THE-COUNTER DERIVATIVE CONTRACTS ON SECURITIES

AMENDMENTS TO CDCC'S RULES

Summary

The Canadian Derivatives Clearing Corporation (CDCC) intends to extend its central counterparty and clearing services to Over-The-Counter Derivative Instruments (OTC DI) on Securities. This project necessitates changes to CDCC's Rules, more particularly to Part D – Over-The-Counter Derivative Instruments.

The proposed amendments to CDCC's Rules have the objective of allowing CDCC to clear OTC DI's on Securities which are similar in nature to its current slate of products.

Process for Changes to the Rules

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

As the proposed amendments to CDCC's Rules have the effect of expanding its scope of activities, CDCC has agreed on a voluntary basis to submit the amendments to a public consultation process. Therefore, comments on the proposed amendments to CDCC's Rules must be submitted prior to August 2, 2006. Please submit your comments to :

Canadian Derivatives Clearing Corporation	
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Suite 700	3 rd Floor
Toronto, Ontario	Montréal, Québec
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Tel. : 416-367-2463	Tel. : 514-871-3545
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Ms. Joëlle Saint-Arnault
Secretary
Canadian Derivatives Clearing Corporation
Tour de la Boruse
P.O. Box 61, 800 Victoria Square
Montréal, Quebec H4Z 1A9
E-mail : legal@m-x.ca

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

Ms. Anne-Marie Beaudoin
Director – Secretariat of L'Autorité
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal, Quebec H4Z 1G3
E-mail : consultation-en-cours@lautorite.qc.ca

Appendices

For your information, you will find below an analysis document of the proposed rule amendments and the proposed regulatory text as Appendix 1. The implementation date of the proposed amendments will be determined following approval by the Autorité des marchés financiers.

Michel Favreau
Senior Vice-President and Chief Clearing Officer



APPENDIX I - CDCC AMENDMENTS TO PART D Framework for OTC DI on Securities

I OVERVIEW

A -- Situation

Canadian Derivatives Clearing Corporation (CDCC) recently amended its Rules to accommodate the clearing and settlement of Over-The-Counter Derivative Instruments (OTC DI). At that time the amendments were made to cover a broad range of OTC DI. The current business needs of the marketplace however, require a greater specificity with respect to certain products, namely, in OTC DI on Securities.

B -- Issue

In developing Part D, CDCC had borrowed the structure of Rule C applicable to Futures. This however, did not adequately capture all of the specificities of equity derivatives traded in the over-the-counter market.

Specifically, Part D needed to include a description of the framework to be used in clearing products which require initial payments, such as Options. In addition, Rules D-4 and D-5 required modifications so that CDCC could adequately encompass the settlement of equity derivatives within the existing OTC DI framework.

The core of this amendment however, lies with the fact that the OTC DI that CDCC is considering clearing are very similar in nature to its current exchange-traded business. For example, OTC DI which are options on

Securities will follow the same Rules, processes and procedures as the exchange-traded options currently treated by CDCC.

Rules related to clearing member rights and obligations, the exercise process, the settlement and delivery process as well as processes in place at the CDCC for dealing with corporate actions, will apply *mutatis mutandis* to OTC DI which are options.

C -- Objectives

The goal of the proposed amendments to CDCC Part D is to allow CDCC to clear OTC DI on Securities, which are similar in nature to its current slate of products.

II -- ANALYSIS

A -- Comparison with similar practices in other market places

Currently, there is a trend developing in clearinghouses across the globe that demonstrates an acute business need for centralized processing of both exchange-traded and over-the-counter transactions. Clear examples specific to OTC DI equity derivatives are Euronext's BCclear initiative as well as DTCC's Deriv/Serv business line.

B -- Detailed Analysis

The following is a detailed account of the proposed amendments as well as the rationale for the changes.

Part A

Rule A-1: Definitions

Overview:

- In order to cover OTC DI on Securities, certain definitions were included and/or amended in this Rule.

Section A-102: Definitions

- Notional Quantity : was amended to ensure that both outright as well as formulaic measures of transaction size would be included.
- Product Type : was included as an element of the expanded OTC DI instrument specifications.
- Risk Limits : was included so as to refer to all of the risk management controls implemented at the Corporation.

Part D

Overview:

- The purpose of Part D of CDCC's rules is to enumerate the processes and controls that are binding for Clearing Members who wish to participate in the clearing and settlement of Over-The-Counter Derivative Instruments.

Rule D-1: Clearing of Over-The-Counter Derivative Instruments ("OTC DI")

Section D-104: Acceptance Criteria of OTC DI transactions

- This section is necessary as a means of outlining the criteria to be used in the acceptance of OTC DI. Contrary to the case of exchange-traded products which originate from a regulated market, where both products and participants are regulated, the Corporation will impose certain restrictions on the acceptance of OTC DI transactions as a means of managing its risks.
- In sub-section (2)(b) of Section D-104, "credit risk limits" changed to simply "risk limits" in order to capture all of the limits to be used by CDCC in its risk management.
- The other changes made to this section were necessary to ensure that the Acceptance Criteria related to those Acceptable Underlying Interests that are

Securities remain aligned with the parameters currently in place at CDCC for exchange-traded derivatives on Securities.

Section D-107 Obligations of the Clearing Member

- The purpose of this section is to ensure that for those OTC DI transactions requiring an initial payment (e.g. Option premium), that the Clearing Member effects this payment to the Corporation by the day and time specified by the Corporation and that if the acceptance of the transaction occurs prior to the reception by the Corporation of the initial payment, the Corporation will have the necessary collateral in place to cover the risk.

Section D-108 Transaction Reporting

- The purpose of this section is to define the framework for the reporting of the transaction details to the Corporation by the member.

Section D-109 Position Management

- The purpose of this section is to define how the Corporation will manage the positions of its clearing members. Specifically, it defines what actions the Corporation will take upon:
 - The acceptance of a new transaction.
 - The exercise of an existing position.
 - The expiration of an existing position.
 - A position transfer between Clearing Members.
 - The dissemination of news related to corporate actions.

Section D-111 General Rights and Obligations of Clearing Members for OTC DI

- The purpose of this section is to define the general rights and obligations of Clearing Members engaged in clearing OTC DI transactions, and to specify specifically the rights of OTC DI Option buyers and sellers.

Rule D-2: Marking-To-Market

Section D-202: Mark-To-Market Valuation

- This section defines the methodology to be used in determining the market value of Clearing Members positions, which is a key component of margin.
- As Options are priced using theoretical models in the over-the-counter market, a paragraph was included to describe that CDCC will be using industry accepted methodologies for pricing the OTC DI which it accepts for clearing.

Rule D-3: Physical Delivery of Underlying Interest of Over-The-Counter Derivative Instruments

Section D-302: Delivery Through The Corporation

- This section specifies that any physical deliveries required under the terms of an OTC DI will be fulfilled through the Corporation.
- A portion was included to ensure that CDCC's existing operating policies, such as those applicable to equity options, will be the framework through which delivery will be effected.

Section D-306 Delivery for OTC DI Transactions where the Underlying Interest is a Security

- This section is meant to address the specific requirements of OTC DI

transactions on Securities. The rules currently in place for exchange-traded derivatives will be adhered to; which is the reason for the references to sections in Rule B. Namely:

- To capture the possibility of any restrictions on the underlying security.
- The exercise rule for Options.
- The process of receiving, restricting, treating and reporting Exercise Notices for Options.
- All expiration date procedures for Options.

Rule D-4: Physically Settled Over-The-Counter Derivative Instruments

Section D-401: Definitions

- This section includes the required definitions for Acceptable OTC DI that are physically settled.
- The definition of Reference Index was expanded to capture the value of the Reference Index at different points in time.
- The definition of Settlement Date was expanded to ensure that final settlement under the terms of an OTC DI depends on the Underlying Interest, the Settlement Type, the Settlement Rule as well as on the practices of the Acceptable Marketplace.
- The definition of Settlement Type was included as this property is necessary for all OTC DI and aids in the determination of the Settlement Date.

Section D-403: Final Settlement Through the Corporation

- This section provides for the calculation methodology to be used by the Corporation in determining the Settlement Amounts to be exchanged

under the terms of the OTC DI transactions.

- In subsection (1)(a), a typographical error was corrected.
- In subsection (2), the computation of the Settlement Amount for physically settled OTC DI transactions was included.

Section D-406: Instrument Specifications

- The elements included as part of the generic instrument specifications needed to be expanded so as to capture the specificities of OTC DI on Securities.
- It should be noted that not all of the elements in the instrument specifications apply to every OTC DI which the Corporation will accept for clearing. Rather, a subset will apply to Options on Securities whereas another subset will apply to Fixed Swaps on Electricity.
- The medium and format required by the Corporation for the reception of transaction details will ensure that the combination of elements included in an OTC DI transaction conforms to the Acceptance Criteria as defined by the Corporation.

Rule D-5: Financially Settled Over-The-Counter Derivative Instruments

The analysis provided for Rule D-4 applies *mutatis mutandis* to Rule D-5.

C -- Public Interest

The advantages to market participants of these proposed amendments are numerous and can be summarized as follows:

- Reduction in credit risk exposure to participants of the OTC DI market.
- Optimal use of capital due to the presence of a single counterparty.
- Optimal use of collateral due to the presence of a single counterparty.

- Reduced operational risks as both exchange-traded and OTC DI transactions will follow the same process.
- Reduction in operational overhead costs due to netted payments.

Furthermore, the proposed amendments seek to expand CDCC's offering into products which are closely aligned with its current business. Therefore, the additional risk borne by the CDCC through this expansion is minimal.

IV -- SOURCES

Reference:

- CDCC Rule B.
- CDCC Rule D.

CANADIAN DERIVATIVES CLEARING CORPORATION

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 Parts A, B, C and D of these Rules the capitalized terms used herein shall have the meanings given them in Section A-102.

Amended 03/02, 04/03

Section A-102 Definitions

“Acceptable Instrument Types” or “Acceptable OTC DI” – Over-The-Counter Derivative Instruments which are deemed acceptable for clearing with the Corporation.

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

“Acceptable Marketplace” – a marketplace, other than an Exchange, where buyers and sellers conclude transactions in Acceptable Instrument Types and which meets the requirements of the Corporation to be considered for clearing.

“Acceptance Criteria” – the criteria established by the Corporation for acceptance or rejection of an OTC DI 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.

"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, and the Rules, By-Laws and Operations Manual.

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

"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.

“Associated Clearing Member” - a corporation recognized as such by the Corporation. An Associated Clearing Member shall not maintain any positions on the Corporation’s books. Upon acceptance of an Associated Clearing Member’s Exchange Transactions by the Corporation, all positions shall be automatically transferred to a Related Ordinary Clearing Member. Positions can only be transferred if a Related Ordinary Clearing Member has entered into an agreement, approved by the Corporation, with the Associated Clearing Member for such purposes.

"Authorized Representative" - a person for whom the Clearing Member has filed evidence of authority pursuant to Section A-203.

“Bank Clearing Member” - an Ordinary or an Associated 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 any office of 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.

"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" – any one of the funds established pursuant to Rule A-6 Clearing Funds Deposits.

"Clearing Member" - a member who has been admitted to membership in the Corporation as an Ordinary Clearing Member or, where the context so requires, as an Associated Clearing Member.

"Client" - those customers of an Ordinary Clearing Member *or* Associated Clearing Member who are not On-Floor Professional Traders 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 Participating 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 OTC DI transactions.

"Contract Specifications" - the specifications provided in these Rules and in the by-laws of the Exchange on which the Option or Future is traded.

"Corporation or CDCC" - Canadian Derivatives Clearing Corporation.

"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.

"Deposit Multiplier" - the amount of money used to calculate the Variable Deposit.

"Derivative Instrument" – means a financial instrument, the value of which derives from the value of an Underlying Interest. Without limiting the foregoing, this Underlying Interest may be a commodity or a financial instrument such as a stock, a bond, a currency, a stock or economic index or any other asset.

"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" – i) any circumstance that may materially affect the performance of obligations, which may include 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, Acceptable Marketplaces, Market Center and Delivery Agents that may have a direct impact on the Corporation including impossibility for the Corporation to perform its obligations further to any "force majeure" or emergency affecting any Market Center or 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 it appears that a Clearing Member or any other person 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 person 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 with respect to which it is not practicable for the Corporation to submit, in timely fashion, a rule amendment to its regulatory authorities for prior review, approval or non-disapproval under the relevant securities legislation.

"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 for the closing out of a Long or Short Position in an Option; or
- (b) for 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 specified in Section B-403.

"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 made available to Clearing Members in connection with Rule B-3.

"Firm" - an Ordinary Clearing Member -or, unless the context otherwise requires, an Associated Clearing Member.

"Firm Account" - the account or accounts required to be established for ~~Exchange~~ Transactions of the Clearing Members pursuant to Sections B-102, B-103, C-102, C-103, D-102 and D-103.

"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 Consolidated Activity Report" – the report created by the Corporation on a daily basis including the aggregate position held by a Clearing Member, which also contains the Settlement of Gain and Losses for that Clearing Member for that day.

"Futures Margin Receipt" - a receipt, in a form acceptable to the Corporation, issued by an Approved Depository.

"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:

- (i) 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
- (ii) 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 Joint Regulatory Audit Instructions of the Exchanges and the Investment Dealers Association.

"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 defaulting clearing member during the liquidation of positions and Margin Deposits.

"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 Derivative 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 Funds 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 Derivative 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 Rule D-3 Physical Delivery of Underlying Interest on Over-The-Counter Derivative Instruments; and
- (c) any and all securities pledged or assigned to the Corporation through the facilities of The Canadian Depository for Securities Limited;

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 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 OTC DI.

“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.

“Monthly Financial Report” - the financial returns, documents and related information required to be filed by each Clearing Member under the relevant rules of any Exchange and/or self-regulatory organization applicable to that Clearing Member.

“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” – the physical requirement needed to be satisfied for a period of time by a Clearing Member or his client, expressed on a net basis.

“Non-Conforming Member” – the meaning assigned to this term by Rule A-1A04.

“Notional Quantity” - the size of the OTC DI transaction expressed either outright, or in accordance with the Unit of ~~Trading Measure of the Reference Index and the Underlying Interest and the number of contracts underlying the OTC DI transaction.~~

“On-Floor Professional Trader” - 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 floor trader, an options floor trader, a trader member, a market maker and a specialist.

“On-Floor Professional Trader Account” - the account or accounts required to be established for Exchange Transactions of the Clearing Member's On-Floor Professional Traders pursuant to Sections B-103 and C-103.

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

“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, 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 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.

“Ordinary Clearing Member” - any Clearing Member including, without limitation, an SRO Clearing Member and a Bank Clearing Member, that is not also an Associated Clearing Member.

“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.

“OTC DI Margin Requirement Report” – the report created by the Corporation on a daily basis and which provides for total Margin requirement stemming from OTC DI transactions for all accounts and sub-accounts.

“Over-The-Counter Derivative Instrument” or “OTC DI” – refers to any bilaterally negotiated transactions as well as any transactions concluded on any Acceptable Marketplaces.

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

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

“Product Type” – the attribute of an OTC DI which describes the rights and obligations of the counterparties involved in the transaction insofar as cash flows are concerned.

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

“Related” - a Clearing Member is deemed to be related to another Clearing Member where either of them, or any of the partners in and directors, officers, shareholders and employees of it, collectively have at least a 20% ownership interest in the other of them, including an interest as a partner or shareholder, directly or indirectly, and whether or not through holding companies.

“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.

"Rules" - the Rules of the Corporation as the same may be amended from time to time.

“SRO Clearing Member” - an Ordinary or an Associated Clearing Member that is within the audit jurisdiction of either the Investment Dealers Association of Canada or one of the Participating Exchanges.

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

“Security” shall mean a document that is

- (i) issued in bearer, order or registered form;
- (ii) 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;
- (iii) one of a class or series or by its terms is divisible into a class or series of documents; and
- (iv) 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 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, the time established by the Corporation on the Business Day immediately following a trade day, by which time Settlement of Gains and Losses, premium payments and all margin requirements in respect of such trade day 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 Derivative 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 OTC DI 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 Derivative Instruments which are deemed as acceptable for clearing by the Corporation.

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

"Underlying Interest" - Asset which underlies and determines the value of a Derivative Instrument. 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.

"Uncovered Residual Risk" – The amount of risk deemed 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 Equivalent" - the items specified in Section A-708.

"Unit of Trading" – in respect of any series of futures and options 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 the number to be the subject of a single Derivative Instrument contract.

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

Amended 9/87, 12/89, 5/90, 4/91, 6/91, 1/92, 9/92, 9/93, 6/94, 9/96, 10/97; 5/98; 9/98; 3/99; 03/02, 04/03, 02/06

CANADIAN DERIVATIVES CLEARING CORPORATION

PART D- OVER-THE-COUNTER DERIVATIVE INSTRUMENTS (“OTC DI”)

RULE D-1 CLEARING OF OVER-THE-COUNTER DERIVATIVE INSTRUMENTS (“OTC DI”)

The provisions of this Part D shall apply only to OTC DI which are cleared by the Corporation, pursuant to these rules and to those Clearing Members who are required to make deposits to an OTC DI Clearing Fund.

New Rule 02/06

Section D-101 Responsibility of Members for OTC DI

Every Clearing Member shall be responsible for the clearance of its own OTC DI transactions and of the OTC DI transactions of each Client which has agreed with the Clearing Member that its transactions will be cleared by such Clearing Member. A copy of such clearing agreement shall be provided to the Corporation upon its request.

New Rule 02/06

Section D-102 Maintenance of Accounts

- (1) Every Clearing Member shall establish and maintain with the Corporation the following accounts:
 - (a) One or more Firm Accounts which shall be confined to OTC DI transactions of such Clearing Member;
 - (b) In addition to the foregoing accounts, every Clearing Member conducting business with the public in OTC DI shall also establish and maintain one or more Client Account(s), which shall be confined to the OTC DI transactions of such Clearing Members' clients.

New Rule 02/06

Section D-103 Agreement Regarding Accounts

Every Clearing Member shall agree that:

- (1) In respect of a Firm Account: the Corporation shall have a security interest on all Long Positions and Short Positions, Securities, Underlying Interest, Margin and other funds in such account as security for all of the Clearing Member's obligations to the Corporation;
- (2) In respect of a Client Account: the Corporation shall have a security interest or hypothec on all Long Positions and Short Positions, Securities, Underlying Interest, Margin and other funds in such account with the Clearing Member as security for the Clearing Member's obligations to the Corporation in respect of all OTC DI maintained in such account.

—The Corporation may close out the positions in such account and apply the proceeds thereof to the obligations of the Clearing Member to the Corporation, at any time, without prior notice to the Clearing Member.

New Rule 02/06

Section D-104 Acceptance ~~of~~ Criteria

Acceptance Criteria reflect the acceptance parameters for an OTC DI transaction to be cleared by the Corporation. These Acceptance Criteria will be updated and communicated through a notice to Members from time to time by the Corporation and will include, amongst other things, the following:

- 1) With respect to the transaction:
 - a) that the Underlying Interest of the OTC DI is one of the Acceptable Underlying Interests;
 - b) that the OTC DI is one of the Acceptable Instrument Types;
 - c) when a transaction originates from a marketplace, that the latter is an Acceptable Marketplace;
 - ~~d)~~ that the Notional Quantity of the OTC DI transaction respects the thresholds as defined by the Corporation;
 - ~~d)e)~~ that the counterparties involved in the original OTC DI transaction are either Clearing Members in good standing, or are clients of such Clearing Members.
- 2) That such Clearing Member:
 - a) is not considered Non-Conforming by the Corporation as defined in Section A-1A04;
 - b) that the transaction will not have the effect of the Clearing Member or client exceeding their respective ~~credit risk~~ Risk limits~~Limits~~, as determined by the Corporation;
 - c) that the Clearing Members or their clients continue to be in good standing with the relevant Market Centres.

For the purposes of the Acceptance Criteria in clause (1)(a) above, Sections B-502, B-503, B-601, B-602, B-603, B-604 and B-605 shall apply by making the necessary adaptation to give effect to the original intention of the aforementioned sections for those Acceptable Underlying Interests classified as Securities.

New Rule 02/06

Section D-105 Novation

Through novation, the Corporation acts as central counterparty between each Clearing Member.

All OTC DI transactions that are submitted to the Corporation are registered in the name of the Clearing Member. Upon Acceptance of the Transaction, novation occurs and the initial Transaction is replaced by two different transactions between the Corporation and each Clearing Member involved in the Transaction.

Each Clearing Member looks to the Corporation for the performance of the obligations under a Transaction and not to another Clearing Member. The Corporation shall be obligated to the Clearing Member in accordance with the provisions of these Rules. Furthermore, each client of a Clearing Member looks solely to the Clearing Member for performance of the obligations and not to the Corporation.

New Rule 02/06

Section D-106 Obligations of the Corporation

Acceptance by the Corporation of an OTC DI shall, subject to the fulfilment of the conditions precedent set forth in Section D-104, be deemed to have occurred following the issuance by the Corporation of the relevant Trade Confirmation.

In the event that an OTC DI transaction does not meet the Acceptance Criteria as set forth in Section D-104, the Corporation will not register the transaction and will provide reasons for such rejection to all relevant parties within a reasonable time delay.

Section D-107 Obligations of the Clearing Member

*****note to translator: this is B-105 + B-109

- 1) The Clearing Member responsible for an OTC DI transaction requiring an up-front payment prior to it being accepted by the Corporation shall be obligated to pay to the Corporation the amount of said payment agreed upon in such OTC DI transaction. Such payment shall be made as set forth in these Rules not later than the Settlement Time for such OTC DI transaction. Notwithstanding the fact that the Corporation has not received such payment by the Settlement Time, the Corporation may in its sole discretion choose to accept all unpaid OTC DI transactions of such Clearing Member. However, the Corporation shall have the right to apply any funds available in a Clearing Member's Firm Account or to liquidate the positions in such Firm Account and apply the proceeds thereof to the payment due in any account of such Clearing Member. In addition, any Long Position shall be subject to a lien and security interest in favour of the Corporation and the Corporation shall have the right to close out or to exercise such Long Position and to apply the proceeds in satisfaction of the Clearing Member's obligations to the Corporation.
- 2) Between the time of the issuance of the Trade Confirmation and the Settlement Time, the Corporation reserves the right to request of the purchasing Clearing Member a Margin Deposit for the amount of the up-front payment, or any other amount which it deems acceptable considering prevailing market conditions.

Section D-108 Transaction Reporting

***note to translator: this was B-108

- 1) The acceptance of every OTC DI transaction by the Corporation as provided in Sections D-104 and D-107 shall be subject to the condition that the Acceptable Marketplace on which such OTC DI transaction occurred, or the parties involved in such transaction, have provided the Corporation with the following information:
 - a) The identity of purchasing Clearing Member and the writing Clearing Member;
 - b) The Accounts where said transaction will be registered; and
 - c) The details of the transaction corresponding to the Instrument Specifications in Sections D-406 or D-506 of these Rules.
- 2) The Corporation reserves the right to specify the format of the transaction details as well as the medium through which they are communicated to the Corporation.
- 3) The Corporation shall have no obligation for any loss resulting from the untimely submission by an Acceptable Marketplace, or the parties to the transaction, to the Corporation of the information described in subsection (1) of this Section D-108.

Section D-109 Position Management

- (1) A Long Position or a Short Position in OTC DI transactions will be created upon the Corporation's acceptance of such OTC DI transaction and the management of such positions will remain consistent with the operating policies and procedures of the Corporation then in effect.
- (2) For OTC DI transactions that are Options of the same Series of Options, the Corporation will maintain and report the Clearing Member's net position, keeping in consideration the following:
- _____ (a) The Long Position or Short Position shall be reduced by the number of Options of such Series of Options for which the Clearing Member thereafter files an Exercise Notice with the Corporation in such account;
- _____ (b) The Long Position or Short Position shall be eliminated at the Expiration Time for such Series of Options;
- _____ (c) The Long Position or Short Position shall be increased by the number of Options of such Series of Options transferred to such account, with the consent of the Clearing Member and the Corporation, from another account of the Clearing Member or from another Clearing Member;
- _____ (d) The Long Position or Short Position shall be reduced by the number of Options of such Series of Options transferred from such account, with the consent of the Clearing Member and the Corporation, to another account of the Clearing Member or to another Clearing Member;
- _____ (e) The number, or the terms of the Options in the Long Position or Short Position may be adjusted from time to time in accordance with Rule A-9.

New Rule 02/06

D-~~107~~ 110 Limitation of Liability

For OTC DI transactions where there is a Guaranteeing Delivery Agent, the Corporation shall not be responsible for the performance of the obligations related to the OTC DI transaction with regards to:

- (a) Delivery of the Underlying Interest;
- (b) Any replacement cost incurred during the delivery period which is due to the non-delivery of the seller specified in the transaction.

D-111 General Rights and Obligations of Clearing Members for OTC DI

If not otherwise mentioned in these Rules, the rights and obligations of the parties to an OTC DI transaction shall be determined in accordance with the practices of the Acceptable Marketplace on which the transaction was concluded.

For the purposes of OTC DI transactions which are Options, Section B-110 shall apply to OTC DI transactions by making the necessary adaptation to give effect to the original intention of the aforementioned sections. In making the necessary adaptations it should be considered that Options which are OTC DI transactions are not issued by the Corporation.

New Rule 02/06

RULE D-2 MARKING-TO-MARKET

Section D-201 Reference Prices and Forward Curves

The Corporation will determine the Reference Price of each Underlying Interest- for each business day. The Corporation reserves the right to use a variety of data sources, including but not limited to, market participants, price reporting agencies and brokers. These individual Reference Prices will be combined to form a Forward Curve for each Underlying Interest. Forward Prices will be extrapolated from the Forward Curve and will be used in the daily mark-to-market and margining processes. The Corporation reserves the right to alter its methodology for Forward Curve construction from time to time.

New Rule 02/06

Section D-202 Mark-To-Market Valuation

The unrealized profit or loss on an OTC DI transaction on any given Business Day shall be the net present value of all future cash flows.

The unrealized profit or loss on an OTC DI transaction which is an Option on any given Business Day shall be determined by applying standard pricing methodologies appropriate for the Option.

New Rule 02/06

RULE D-3 PHYSICAL DELIVERY OF UNDERLYING INTEREST ON OVER-THE-COUNTER DERIVATIVE INSTRUMENTS

Section D-301 Definitions

Notwithstanding Section A-102 for the purposes of Physical Delivery of Underlying Interest stemming from OTC DI transactions the following terms shall have the following meanings respectively:

"Security Funds" means any additional deposit(s) by a Clearing Member required by the Corporation to be placed with the Corporation to ensure performance of a Clearing Member's obligations and shall be equivalent to the form of deposits accepted by the Corporation pursuant to Section A-608.

"Time of Delivery" means the time by which a Clearing Member must make delivery of, or accept delivery of and make payment in respect of, an Underlying Interest without being considered to have failed in its obligations under these Rules.

New Rule 02/06

Section D-302 Delivery Through the Corporation

Unless otherwise specified by the Corporation, delivery of the Underlying Interest and payment thereof shall be made through the Corporation pursuant to the forms and procedures prescribed by it, having regard to the OTC DI specifications referred to in Rule D-4 as well as of the practices of the regional market where the transaction was concluded or with the operating policies and procedures of the Corporation then in effect.

New Rule 02/06

Section D-303 Delivery Process

In all cases, the Corporation will generate Net Delivery Requirements arising from positions in OTC DI transactions up to and including the next business day transactions held by Clearing Members and their respective clients. These Net Delivery Requirements are to be provided to the Delivery Agent responsible for dispatching the Underlying Interest to the transacting parties in the form specified by the aforementioned Delivery Agent.

- (1) In the presence of a Guaranteeing Delivery Agent, the Corporation shall be exclusively responsible for the dissemination of Net Delivery Requirements to the Guaranteeing Delivery Agent and will bear no responsibility for the replacement of the Underlying Interest in the event that the seller fails to perform on the delivery obligation as specified under the terms of the OTC DI transactions. The Corporation will, however, bear the responsibility of guaranteeing the Settlement Amounts derived from the delivery process.
- (2) For Underlying Interests which are not delivered via a Guaranteeing Delivery Agent, the Corporation is exclusively responsible for the dissemination of the Net Delivery Requirements to the Delivery Agent, the replacement of the Underlying Interest in the event that the seller fails to perform on the delivery obligation as well as guaranteeing final settlement under the terms of the OTC DI transaction.

New Rule 02/06

Section D-304 Failure to Deliver or to Accept Delivery

The consequences of a failure to deliver or to accept delivery on the part of a Clearing Member or its respective client will depend on the convention of the Market Centre applicable to the OTC DI .

- (1) Market Centre serviced by a Guaranteeing Delivery Agent:
- (2) In the event of non-delivery and/or non-acceptance of delivery by the Clearing Member or its client, the Clearing Member shall not be considered Non-Conforming by the Corporation. If the Clearing Member subsequently fails to settle with the Guaranteeing Delivery Agent or fails to remedy its client's failure to settle with the Guaranteeing Delivery Agent, the Clearing Member will be considered Non-Conforming by the Corporation. The Corporation may take or cause, authorize or require to be taken whatever steps it may deem necessary to effect payment to or otherwise settle with, the receiving and/or delivering Clearing Member.
- (3) Market Centre not serviced by a Guaranteeing Delivery Agent:

If a Clearing Member or its client who is required to make delivery under Section D-303 fails to complete such delivery by the time required for delivery in these Rules, the Clearing Member will be considered a Non-Conforming Member. The Corporation may take or cause, authorize or require to be taken whatever steps it may deem necessary to effect delivery to or otherwise settle with, the receiving Clearing Member. Without limiting the generality of the foregoing, the Corporation may acquire and deliver the Underlying Interest to the receiving Clearing Member, reimburse or pay to the receiving Clearing Member any additional financial costs incurred as a result of the receiving Clearing Member acquiring the Underlying Interest on the open market, enter into an agreement with the receiving Clearing Member and the delivering Non-Conforming Member relating to the failed delivery, and/or take such other action as the Corporation may, in its absolute discretion, deem appropriate or necessary in order to ensure that a Non-Conforming Member's obligations are fulfilled. In the event the cost of effecting delivery to, or otherwise settling with, the receiving Clearing Member exceeds the Settlement Amount at which the delivery was to be made, the Non-Conforming Member shall be liable for and shall promptly pay to the Corporation or the receiving Clearing Member as the case may be, the amount of such difference.

New Rule 02/06

Section D-305 Penalties and Restrictions

- (1) As described in Rule A-5, the Board shall set by resolution, from time to time, the penalties payable in the event that a Clearing Member fails to make delivery or fails to accept delivery and make payment when required to do so in accordance with these Rules; provided, however, that the penalty for any single failure shall not exceed \$250,000. The amount of these penalties shall be in addition to any other sanctions that may be imposed by the Corporation under the Rules in respect of such a default. If a Clearing Member fails to make delivery or accept delivery and make payment, as required under these Rules, such penalty shall be assessed against it commencing as of the Time of Delivery and continuing until the Non-Conforming Member's obligations to the Corporation are fulfilled or the Non-Conforming Member is suspended, whichever is the sooner.
- (2) Where at the Time of Delivery a delivering Clearing Member fails to make delivery or a receiving Clearing Member fails to accept delivery and make payment and becomes a Non-Conforming Member the Non-Conforming Member's clearing activities shall immediately be restricted to closing transactions as defined in these Rules, unless the Corporation determines that it is not necessary to impose such restriction, in whole or in part. This restriction shall continue until the Non-Conforming Member deposits Security Funds with the Corporation in accordance with Sections D-307~~8~~ and D-308~~9~~, or, if such funds are not

deposited, until otherwise determined by the Chairperson of the Board and any two directors. Nothing in this Section D-305(2) shall prevent the Corporation from immediately suspending a Non-Conforming Member.

New Rule 02/06

Section D-306 Delivery for OTC DI Transactions where the Underlying Interest is a Security

For the purposes of OTC DI transactions which are Options, Sections B-117, B-301, B-302, B-303, B-304, B-305, B-306, B-307, B-308, B-309, B-402 and B-607 shall apply to OTC DI transactions by making the necessary adaptation to give effect to the original intention of the aforementioned sections.

Section D-~~306~~307 Notification of Failure to Effect Delivery/Effect Payment

The Corporation shall report a Non-Conforming Member, and all circumstances surrounding the transaction that the Corporation deems relevant, to any appropriate self regulatory agency or regulatory agency, and to any other person or organization considered appropriate or necessary by the Corporation. Such notice may include, but is not restricted to, the following information:

- (a) the identities of the delivering Clearing Member and the receiving Clearing Member;
- (b) the notional value of the transaction;
- (c) the Underlying Interest to be delivered;
- (d) the settlement amount and;
- (e) any other information considered appropriate or relevant by the Corporation.

New Rule 02/06

Section D-~~307~~308 Deposit of Security Funds

In the event where the failure of delivery originates from an OTC DI transaction applying to a Market Centre not served by a Guaranteeing Delivery Agent, the following shall apply:

- (1) Where a Non-Conforming Member has defaulted on the delivery of an Underlying Interest, it must deliver to the Corporation, within one hour after the Time of Delivery, Security Funds in an amount equal to not less than 105% of the market value of the Underlying Interest to be delivered. Upon such delivery, the calculation of penalties and implementation of restrictions, as provided for in Section D-305, shall end. The deposit of the Security Funds with the Corporation as herein provided does not discharge any obligation of such Non-Conforming Member to the Corporation including the payment of any penalties or the payment of costs incurred by the Corporation in connection with the Non-Conforming Member's default, and does not preclude the suspension of such Non-Conforming Member, or the assessment of additional sanctions under Rule A-5.
- (2) Where a Non-Conforming Member has failed to accept the delivery of an Underlying Interest and make payment thereof, it must deliver to the Corporation, within one hour after the Time of Delivery, Security Funds equal to the settlement value, or, in the absolute discretion of the Corporation, in an amount equal to the difference between the liquidating value of the Underlying Interest and the settlement value, or such other amount as the Corporation may determine. Upon such delivery, the calculation of penalties and implementation of restrictions, as provided for in Section D-305, shall end. The deposit of the Security Funds with the Corporation, after the required delivery time, does not discharge any obligation of such Non-Conforming Member to the Corporation including the payment of any penalties or payment of costs incurred by the Corporation in connection with the Non-Conforming Member's default, and does not preclude the suspension of such Non-Conforming Member or the assessment of additional sanctions under Rule A-5.

- (3) The Security Funds deposited by a Non-Conforming Member shall be used, together with the Non-Conforming Member's Margin or Clearing Fund deposits, any excess Margin and Clearing Fund deposits placed by that Non-Conforming Member with the Corporation, and any other Non-Conforming Member held by the Corporation for such purposes, by the Corporation to effect delivery of or effect payment in respect of the Underlying Interest, or otherwise meet the Corporation's obligations in respect of the transaction.
- (4) Where the Corporation has effected delivery of or made payment for the Underlying Interest, or otherwise settled the transaction, and the cost of so doing exceeds the Security Funds (if any) deposited under Section D-308~~7~~ (3), and the Non-Conforming Member's Margin or Clearing Fund deposits, the Non-Conforming Member shall be liable to and shall promptly pay the Corporation the amount of the excess, in addition to any penalties and other sanctions that may be assessed, and the Corporation's reasonable expenses, including legal fees.
- (5) Where the Corporation has effected delivery of or made payment for the Underlying Interest, or otherwise settled the transaction, and the cost of so doing is less than the Security Funds (if any) deposited under Section D-308~~7~~ (3), any excess, less all assessed penalties and reasonable expenses, including legal fees, incurred by the Corporation, will be promptly returned to the Non-Conforming Member.

New Rule 02/06

Section D-~~308~~309 Other Powers of the Corporation

Notwithstanding the foregoing, the Corporation shall have the power to require a Non-Conforming Member to deposit such other funds or Security as the Corporation may, in its discretion, determine is necessary or advisable given the nature and value of the Underlying Interest and all of the circumstances of the failed OTC DI transaction. A Non-Conforming Member shall cooperate fully with the Corporation in respect of the failed OTC DI transaction and shall promptly provide the Corporation with such information relating thereto and to the Non-Conforming Member, as the Corporation may request.

New Rule 02/06

Section D-~~309~~310 Suspension and Other Disciplinary Action

Notwithstanding any penalties or restrictions imposed on the Non-Conforming Member pursuant to Section D-305, the Corporation may suspend or impose the sanctions provided for in Section A-1A04 and Rules A-4 and A-5 on a Non-Conforming Member.

New Rule 02/06

Section D-~~310~~311 Force Majeure

If delivery, delivery acceptance, settlement, or any precondition or requirement of these is prevented by "Force Majeure" such as but not limited to strike, fire, accident, act of government, act of God or other emergency including "Force Majeure" or emergency of a Delivery Agent or Market Centre, the affected Clearing Member shall immediately notify the Corporation. The Corporation shall take such action as it deems necessary under the circumstances and its decision shall be binding upon all parties to the OTC DI transaction. Without limiting the generality of the foregoing, the Corporation may modify the Settlement Time and/or the Settlement Date; designate alternate or new Market Centres; designate alternate or new procedures in the event of conditions interfering with the normal operations of a Delivery Agent or delivery and settlement process; and/or fix a Reference Index Price(s) as such term is defined in D-4 and D-5 below.

New Rule 02/06

RULE D-4 PHYSICALLY SETTLED OVER-THE-COUNTER DERIVATIVE INSTRUMENTS

Erreur ! Signet non défini.

The sections of this Rule D-4 are applicable only to OTC DI settling on a future date where the Underlying Interest is physically deliverable.

New Rule 02/06

Section D-401 Definitions

Notwithstanding Section A-102 for the purposes of OTC DI transactions, the following terms are as defined:

“Baseload” -	refers to the Profile of electricity which is to be delivered over the period of hour-ending 01 through hour-ending 24 for Sunday through to Monday inclusive.
“Index Instrument” -	an OTC DI in which two contracting parties, a buyer and a seller, agree to exchange a fixed quantity of the Underlying Interest at a set time in the future for the then prevailing Reference Index price plus or minus a fixed basis.
“Instrument Type” -	the attribute of the OTC DI which describes the time period over which delivery occurs for the Underlying Interest as specified under the terms of the OTC DI.
“Fixed Price” -	<u>is the negotiated-contract price which is specified in the OTC DI <u>transaction. However, in the case of OTC DI transactions which are Options sometimes referred to as the Exercise Price.</u></u>
“Forward Instrument” -	an OTC DI in which two contracting parties, a buyer and a seller, agree to exchange a fixed quantity of the Underlying Interest at a set time in the future, for a set Fixed Price.
“MWh” -	means mega-watt hour
“NERC” -	means North American Electric Reliability Council.
“On-Peak” -	refers to the Profile of electricity which is to be delivered over the period of hour-ending 08 through hour-ending 23 for Monday through to Saturday inclusive.
“Off-Peak” -	refers to the Profile of electricity which is to be delivered over the period of hour-ending 01 through hour-ending 07 plus hour-ending 24 between Monday to Saturday inclusive plus hour-ending 01 through hour-ending 24 on Sundays as well as any other days classified as Off-Peak in accordance with the standard NERC operating calendar.
“Profile” -	the Commodity sub-type or grade specified as to be delivered under the terms of the OTC DI.

“Reference Index” -	the index specified under the terms of an OTC DI used to measure the value of a related Underlying Interest <u>at a moment in time specified under the terms of the OTC DI.</u>
"Reference Index Price" -	the value of the Reference Index determined by the Corporation at the time of a specific Reset.
“Reset Frequency” -	the elapsed time interval between successive resets of a Reference Index.
“Settlement Date” -	unless otherwise specified, shall be the <u>day a payment is made under the terms of the OTC DI. This day shall be determined by the Corporation and will depend on the Underlying Interest, Settlement Type and the Settlement Rule of the OTC DI as well as the practices of the relevant Acceptable Marketplace.</u> 25th-calendar day of every month.
“Settlement Period” -	unless otherwise specified, shall be the period of the 1 st calendar day until the last calendar day of every month.
“Settlement Rule” -	will be either current month (CM) or following month (FM) as outlined in the OTC DI specifications.
<u>“Settlement Type”</u>	<u>either financially or physically settled.</u>
“Spread” -	the fixed price to be added or subtracted from the floating leg of an OTC DI transaction.
“Unit of Measure” -	the standard volumetric measurement quantity related to a particular Commodity.

New Rule 02/06

Section D-402 Over-The-Counter Derivative Instruments (OTC DI) Acceptable for Clearing with the Corporation

The Corporation shall issue, from time-to-time, a list of parameters defining the OTC DI transactions that are acceptable for clearing with the Corporation.

New Rule 02/06

Section D-403 Final Settlement Through the Corporation

(1) Physically Settled OTC DI where the Underlying Interest is a Commodity

Unless otherwise specified by the Corporation, settlement of OTC DI transactions for a specific Settlement Period shall be performed in accordance with the Settlement Rule specific to the OTC DI and will occur on the Settlement Date as defined in these Rules.

Settlement shall be made by an exchange of cash against the delivery of the Underlying Interest between the Corporation and each of the selling and buying Clearing Members. The Settlement Amount to be paid or received in final settlement of:

- (a) A Forward Instrument is
 - the Notional Quantity multiplied by the

- ~~fixed~~Fixed Price multiplied by the
 - number of days specified in the Instrument Type which are coincident with the Settlement Period multiplied by the
 - number of hours specified in the Profile (if applicable)
- as specified under the terms of the OTC DI transaction.

- (b) An Index Instrument is
- the Notional Quantity multiplied by the
 - Reference Index Price for every calendar day and hour (if applicable) specified by the Instrument Type and Profile coincident with the Settlement Period as specified under the terms of the OTC DI transaction.

- (2) Physically Settled OTC DI where the Underlying Interest is a Security

Unless otherwise specified by the Corporation, settlement of OTC DI transactions for a specific Settlement Period shall be performed in accordance with the Settlement Rule specific to the OTC DI and will occur on the Settlement Date as defined in these Rules.

Settlement shall be made by an exchange of cash against the delivery of the Underlying Interest between the Corporation and each of the selling and buying Clearing Members. The Settlement Amount to be paid or received in final settlement of:~~This section was intentionally left blank for future use.~~

- (a) A Forward Instrument or Option is

- the Notional Quantity multiplied by the
- Fixed Price.

New Rule 02/06

Section D-404 Unavailability or Inaccuracy of Reference Index Price

- (1) If the Corporation shall determine that the Reference Index Price for an Underlying Interest is unreported or otherwise unavailable for purposes of calculating the Settlement Amount, then, in addition to any other actions that the Corporation may be entitled to take under the By-laws and Rules, the Corporation may do any or all of the following:
- (a) suspend payment of the Settlement Amount. At such times as the Corporation determines that the required Reference Index Price is available, the Corporation shall fix a new date for Settlement;
- b) fix the Reference Index Price in accordance with the best information available.
- 2) The published Reference Index Price shall be deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Reference Index Price, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Reference Index Price to be used for settlement purposes.

New Rule 02/06

Section D-405 Payment and Receipt of Settlement Amount

The Settlement Amount will be included with other settlements on the daily Consolidated Activity Report on the Settlement Date which is appropriate for the OTC DI.

New Rule 02/06

Section D-406 Instrument Specifications

The generic specifications for each OTC DI transaction acceptable for clearing by the Corporation are summarized as follows:

**Commodity
Profile**

**Tick Size
Reference Index**

~~Instrument Type~~
~~Currency~~
~~Unit of Measure~~
~~Minimum Notional Quantity~~

~~Reference Index Price~~
~~Reset Frequency~~
~~Spread~~
~~Settlement Rule~~

Underlying Interest
Market Centre
Product Type
Type of Option
Instrument Type/Expiration
Profile
Exercise Rule
Exercise Price/Fixed Price
Basis
Settlement Type
Unit of measure/Unit of
Trading
Settlement Currency
Settlement Rule
Reference Index
Reset Frequency
Notional Quantity

Each OTC DI transaction which the Corporation deems acceptable for clearing will be defined by a subset of the above parameters. In accordance with Section D-402, the Corporation will publish, from time to time, a list of acceptable parameters corresponding to these generic specifications.

New Rule 02/06

RULE D-5 FINANCIALLY SETTLED OVER-THE-COUNTER DERIVATIVE INSTRUMENTS

The sections of this Rule D-5 are applicable only to OTC DI settling on a future date where the Underlying Interest is financially settled.

New Rule 02/06

Section D-501 Definitions

Notwithstanding Section A-102 for the purposes of OTC DI, the following terms are defined as follows:

“AESO” -	means Alberta Electric System Operator.
“APP” -	means Alberta Power Pool and represents the Reference Index as computed by AESO.
“Baseload” -	refers to the Profile of electricity which is to be delivered over the period of hour-ending 01 through hour-ending 24 for Sunday through to Monday inclusive.
“Basis Swap” -	is a type of swap transaction whereby cash flows are exchanged at predetermined future dates; these cash flows are determined by two floating rates, namely Reference Index (1) and Reference Index (2), where both Reference Indices are expressed according to the same Unit of Measure and currency.
“Fixed Price” -	is the negotiated-contract price which is specified in the OTC DI <u>transaction. However, in the case of OTC DI transactions which are Options sometimes referred to as the Exercise Price.</u>
“Fixed-Rate Payer” -	refers to a contracting party to a Swap transaction charged with paying a fixed rate specified under the terms of the OTC DI transaction.
“Fixed Swap” -	is a type of swap transaction whereby cash flows are exchanged at future dates; cash flows are determined by one fixed rate and one floating rate (Reference Index (1)), where both the fixed rate and Reference Index (1) are expressed according to the same Unit of Measure and currency.
“Floating-Rate Payer” -	refers to the contracting party in a Swap transaction that is charged with paying a floating rate specified under the terms of the OTC DI transaction, where the floating rate is the value of the Reference Index specified under the terms of the OTC DI.
“Gj” -	means Giga-joule or 1,000,000,000 Joules.
“Instrument Type” -	the attribute of the OTC DI which describes the time period over which delivery occurs for the Underlying Interest as specified under the terms of the OTC DI.
“MMBtu” -	means a million British Thermal Units

“MWh” -	means mega-watt hour or 1,000,000 Watt hour
“NERC” -	means North American Electric Reliability Council.
“Off-Peak” -	refers to the Profile of electricity which is to be delivered over the period of hour-ending 01 through hour-ending 07 plus hour-ending 24 between Monday to Saturday inclusive plus hour-ending 01 through hour-ending 24 on Sundays as well as any other days classified as Off-Peak in accordance with the standard NERC operating calendar.
“On-Peak” -	refers to the Profile of electricity which is to be delivered over the period of hour-ending 08 through hour-ending 23 for Monday through to Saturday inclusive.
“Profile” -	is the Commodity sub-type or grade specified as to be delivered under the terms of the OTC DI.
“Reset Frequency” -	is the elapsed time interval between successive Resets of a reference -Reference Index.
“Reference Index” -	is the index specified under the terms of an OTC DI used to measure the value of a related Underlying Interest <u>at a moment in time specified under the terms of the OTC DI.</u>
"Reference Index Price" -	is the value of the Reference Index determined by the Corporation at the time of a specific Reset.
“Settlement Date” -	means, unless otherwise specified, <u>shall be the day a payment is made under the terms of the OTC DI. This day shall be determined by the Corporation and will depend on the Underlying Interest, Settlement Type and the Settlement Rule of the OTC DI as well as the practices of the relevant Market Centre.</u> the 25th calendar day of every month.
“Settlement Period” -	means, unless otherwise specified, the period of the 1 st calendar day until the last calendar day of every month.
“Settlement Rule” -	will be either current month (CM) or following month (FM) as outlined in the OTC DI specifications.
<u>“Settlement Type”</u>	<u>either financially or physically settled.</u>
“Spread” -	means the fixed price to be added or subtracted from the floating leg of an OTC DI transaction.
“Swap” -	means a derivative transaction which involves two contracting parties exchanging cash flows at some point in time in the future.
“Unit of Measure” -	means the standard volumetric measurement quantity related to a particular Commodity.

**Section D-502 Over-The-Counter Derivative Instruments (OTC DI)
Acceptable for Clearing with the Corporation**

The Corporation shall issue, from time to time, a list of parameters defining the OTC DI transactions that are acceptable for clearing with the Corporation.

New Rule 02/06

Section D-503 Final Settlement Through the Corporation

(1) Financially Settled OTC DI where the Underlying Interest is a Commodity

Unless otherwise specified by the Corporation, settlement of OTC DI transactions for a specific Settlement Period shall be performed in accordance with the Settlement Rule specific to the OTC DI and will occur on the Settlement Date. Settlement shall be made by an exchange of cash between the Corporation and each of the selling and buying Clearing Members. The Settlement Amount to be paid or received in final settlement of:

(a) A Fixed Swap is determined by:

- the Notional Quantity multiplied by the
 - difference between the Reference Index Price and the fixed rate multiplied by the
 - number of days specified in the Instrument Type which are coincident with the Settlement Period multiplied by the
 - number of hours in the Profile (if applicable)
- as specified under the terms of the OTC DI transaction.

(b) A Basis Swap is determined by:

- the Notional Quantity multiplied by the
 - difference between Reference Index Price (1) and Reference Index Price (2) multiplied by the
 - number of days in as specified in the Instrument Type which are coincident with the Settlement Period multiplied by the number of hours in the Profile (if applicable)
- as specified under the terms of the OTC DI transaction.

(2) Financially Settled OTC DI where the Underlying Interest is a Security

~~This section was intentionally left blank for future use.~~

~~(a) A Call Option is determined by:~~

- ~~• the Notional Quantity multiplied by the~~
- ~~• difference between the Reference Index Price and the Exercise Price, if positive, as specified in the OTC DI transaction.~~

~~(b) A Put Option is determined by:~~

- ~~• the Notional Quantity multiplied by the~~
- ~~• difference between the Exercise Price and the Reference Index Price, if positive, as specified in the OTC DI transaction.~~

New Rule 02/06

Section D-504 Unavailability or Inaccuracy of Reference Index Price

- (1) If the Corporation shall determine that the Reference Index Price for an Underlying Interest is unreported or otherwise unavailable for purposes of calculating the Settlement Amount, then, in addition to any other actions that the Corporation may be entitled to take under the By-laws and Rules, the Corporation may do any or all of the following:
 - (a) suspend payment of the Settlement Amount. At such times as the Corporation determines that the required Reference Index Price is available, the Corporation shall fix a new date for settlement;
 - (b) fix the Reference Index Price in accordance with the best information available.
- (2) The published Reference Index Price shall be deemed to be accurate except where the Corporation determines in its discretion that there is a material inaccuracy in the reported Reference Index Price. In such a case, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Reference Index Price to be used for settlement purposes.

New Rule 02/06

Section D-505 Payment and Receipt of Settlement Amount

The Settlement Amount will be included with other settlements on the daily Consolidated Activity Report on the Settlement Date which is appropriate for the OTC DI.

New Rule 02/06

Section D-506 Instrument Specifications

The generic specifications for each OTC DI acceptable for clearing by the Corporation are summarized as follows:

Commodity	Tick Size
Profile	Reference Index
Instrument Type	Reference Index Price
Currency	Reset Frequency
Unit of Measure	Spread
Minimum Notional Quantity	Settlement Rule

Underlying Interest

Market Centre

Product Type

Type of Option

Instrument Type/Expiration

Profile

Exercise Rule

Exercise Price/Fixed Price

Basis

Settlement Type

Unit of measure/Unit of

Trading

Settlement Currency

Settlement Rule

Reference Index

Reset Frequency

Notional Quantity

Each OTC DI which the Corporation deems acceptable for clearing will be defined by a subset of the above parameters. In accordance with Section D-402, the Corporation will publish, from time to time, a list of acceptable parameters corresponding to these generic specifications.

New Rule 02/06