



NOTICE TO MEMBERS

No. 2013 – 237

October 2, 2013

REQUEST FOR COMMENTS

AMENDMENTS TO RULES C-17 AND C-22 MODIFICATION TO THE 30-DAY OVERNIGHT REPO RATE FUTURES CONTRACT (“ONX”) SPECIFICATIONS

Summary

On July 31, 2013, the Board of Directors of Canadian Derivatives Clearing Corporation (CDCC) approved amendments to the Rules of the CDCC. Bourse de Montréal Inc. has amended the methodology (from arithmetic average to compounding) it uses to calculate the final settlement price of the ONX futures contract. Thus, the purpose of the proposed amendment is to accommodate the said change to the methodology used by the Bourse to calculate the final settlement price of the ONX futures contract. The modification to rule C-22 pertaining to the OIS contract is only for harmonization purposes.

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

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.

Canadian Derivatives Clearing Corporation

The Exchange Tower
130 King Street West, 5th Floor
Toronto, Ontario
M5X 1J2
Tel. : 416-367-2463
Fax :: 416-367-2473

800 Victoria Square
3rd Floor
Montréal, Québec
H4Z 1A9
Tel. : 514-871-3545
Fax: : 514-871-3530

www.cdcc.ca

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:

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

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

Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
Tour de la Bourse, P.O. Box 246
800 Victoria Square, 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



MODIFICATION TO THE 30-DAY OVERNIGHT REPO RATE FUTURES CONTRACT (ONX) SPECIFICATIONS

AMENDMENTS TO RULE C-17 AND RULE C-22 OF CDCC

A. Overview

As announced on May 23, 2013 (Request for comments Circular 098-2013), Bourse de Montréal Inc. (the “Bourse”) proposes to amend the methodology used to calculate the final settlement price of the ONX futures contract. The Bourse proposes to change the calculation methodology of the final settlement price of the ONX futures contract from arithmetic average to compounding.

CDCC hereby proposes to amend its rules to accommodate the change to the methodology used to calculate the final settlement price of the ONX futures contract.

B. Analysis

Nature and Purpose of Proposed Changes:

Rule C-17 of CDCC’s Rules provides for 30-Day Overnight Repo rate Futures (Symbol – ONX). CDCC hereby proposes to modify Rule C-17 to redefine the terms “Final Settlement Price” and “Overnight Repo Rate Index” and to add the term “Compounded Overnight Repo Rate” to accurately describe the new methodology proposed by the Bourse.

Minor amendments to rule C-17 and C-22 are also proposed for harmonization purposes.

(The “Proposed Amendments”)

Description and Analysis of Impacts:

The Proposed Amendments would have no operational impacts on CDCC and on the Clearing Members.

The Proposed Amendments would have no risk impacts on CDCC.

The Proposed Amendments would benefit to Clearing Members, market participants and derivatives and financial markets since the final settlement price calculation methodology will be more in line with the OTC market, increasing the likelihood that these types of transactions are centrally cleared.

Drafting Process:

The Proposed Amendments were elaborated through an internal process following the proposed amendment to specifications of the 30-Day Overnight Repo Rate Futures Contract (ONX) by the Bourse.

Impacts on Technological Systems:

Because the change is limited to the methodology used to calculate the final settlement price of the ONX futures contract and because the final settlement price is computed by the Bourse and then sent to CDCC, the Proposed Amendments will have no impact on the technological systems of CDCC and of the Clearing Members.



Benchmarking:

The Proposed Amendments are aligned with the operations of other global central counterparties which are active in the futures markets. For example:

- Eurex Clearing : The Eurex rules, section 2.2.2 Final Settlement Price (page 194), explains that the final settlement price for the EONIA contract will be calculated in consideration of the compound interest effect.

Reference (Rules):

<https://www.eurexclearing.com/clearing-en/resources/rules-and-regulations/136778/>

Public Interest:

The Proposed Amendments are not contrary to the public interest.

C. Process

The Proposed Amendments is submitted for approval by the CDCC Board. Once the approval has been obtained, the Proposed Amendments, including this analysis, will be 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 will also be submitted for approval to the Bank of Canada in accordance with the Oversight Regulatory Agreement.

D. Attached Documents

Amended Rule C-17 and Rule C-22 of CDCC



CANADIAN DERIVATIVES CLEARING CORPORATION

RULES

VERSION OF ~~MAY 24~~, 2013

RULE C-17 30-DAY OVERNIGHT REPO RATE FUTURES (SYMBOL - ONX)

The Sections of this Rule C-17 are applicable only to Futures settling on a future date where the Underlying Interest is the 30-day Overnight Repo Rate.

Section C-1701 Definitions

Notwithstanding Section A-102, for the purposes of the 30-day Overnight Repo Rate Futures contract, the following terms are as defined:

Compounded Overnight Repo Rate

- The Compounded Overnight Repo Rate is the rate of return of a daily compound interest investment at the Overnight Repo Rate. It is calculated in accordance with the following formula:

$$\left[\prod_{i=1}^{d_o} \left(1 + \frac{ORR_i \times n_i}{365} \right) - 1 \right] \times \frac{365}{d} \times 100$$

where:

“ d_o ”, the number of Business Days in the calculation period;

“ i ” is a series of whole numbers from one to d_o , each representing the relevant Business Day in chronological order from, and including, the first Business Day in the relevant Calculation Period;

ORR_i = Overnight Repo Rate on the i^{th} day of the calculation period (if the i^{th} day is not a business day, the previous available Overnight Repo Rate is used);

“ n_i ” is the number of calendar days in the relevant Calculation Period on which the rate is ORR_i ;

“ d ” is the number of calendar days in the relevant Calculation Period.

“Final Settlement Price”

- The Final Settlement Price shall be determined by the Exchange on which the Futures trade ~~by subtracting from 100 the monthly arithmetic average of the daily Overnight Repo Rate for the contract month rounded to the nearest tenth of a basis point. The decimal fraction ending in a five (5) or higher shall be rounded up~~ and will be equal to the Overnight Repo Rate Index calculated over the period of the contract month that

	<p><u>begins on the first calendar day of the contract month and ends on the last calendar day of the contract month. The Final Settlement Price is rounded to the nearest 1/10th of one basis point (0.001). In the case a decimal fraction ends with 0.0005 or higher, the Final Settlement Price shall be rounded up. The Final Settlement Price is determined on the First Business Day following the last day of trading.</u></p>
“Multiplier”	<p>- <u>The Multiplier is</u> the value of the tick used to calculate the size of the contract as specified by the Exchange on which the Futures trade.</p>
“Overnight Repo Rate”	<p>- <u>The Overnight Repo Rate</u> means the Canadian Overnight Repo Rate (CORRA) published by the Bank of Canada being the weighted average rate of overnight general (non-specific) collateral repo trades on a specified date as reported to the Bank of Canada.</p>
“Overnight Repo Rate Index”	<p>- <u>The Overnight Repo Rate Index is</u> 100 minus the the monthly average Overnight Repo Rate for the contract <u>Compounded Overnight Repo Rate . month.</u></p>
“Underlying Interest”	<p>- <u>The Underlying Interest is the</u> Overnight Repo Rate calculated on a 30-day basis and quoted in terms of an Overnight Repo Rate Index.</p>

Section C-1702 Settlement in Cash Through the Corporation

Unless otherwise specified by the Corporation, settlement of positions held following the close of trading on the last day of trading in a Series of Futures shall be on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the short and long Clearing Members. The amount to be paid or received in final settlement of each position opened on or prior to the last day of trading shall be the difference between

- (i) the Final Settlement Price; and
 - (ii) the Settlement Price of the contract on the last day of trading,
- multiplied by the Multiplier of the contract.

Section C-1703 Tender Notices

Rule C-5 shall not apply to 30-day Overnight Repo Rate Futures as they are cash-settled.

Section C-1704 Adjustments

No adjustments will ordinarily be made in the terms of the 30-day Overnight Repo Rate Futures in the event that the Overnight Repo Rate Index is changed. However, if the Corporation shall determine in its sole discretion that any such change causes significant discontinuity in the level of the Overnight Repo Rate Index, the Corporation may adjust the terms of the affected Overnight Repo Rate Futures by taking such action as the Corporation in its sole discretion deems fair to Clearing Members holding Long and Short Positions.

In the event that a governmental agency or body issues an order, ruling, directive or law pertaining to repo transactions and the Corporation determines that a discontinuity in the level of the Overnight Repo Rate Index is caused by such a Government order, it shall take such action as it deems necessary and fair under the circumstances.

Section C-1705 Unavailability or Inaccuracy of Current Value

- (1) If the Corporation shall determine that the Final Settlement Price for any series of 30-day Overnight Repo Rate Futures is unreported or otherwise unavailable for purposes of calculating the gains and losses, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
 - (a) Suspend the Settlement of Gains and Losses. At such time as the Corporation determines that the required Final Settlement Price is available, the Corporation shall fix a new date for Settlement of the Gains and Losses.
 - (b) Fix the Final Settlement Price in accordance with the best information available as to the correct Final Settlement Price.
- (2) The Final Settlement Price as reported by the Exchange on which the Futures trade shall be conclusively deemed to be accurate except that where the Corporation determines in its sole discretion that there is a material inaccuracy in the reported Final Settlement 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 Final Settlement Price to be used for settlement purposes.



CANADIAN DERIVATIVES CLEARING CORPORATION

RULES

VERSION OF JULY 31, 2013

RULE C-22 OVERNIGHT INDEX SWAP FUTURES (SYMBOL - OIS)

The Sections of this Rule C-22 are applicable only to Futures settling on a future date where the Underlying Interest is the Compounded Overnight Repo Rate over the period of the Contract Month

Section C-2201 Definitions

Notwithstanding Section A-102, for the purposes of the Overnight Index Swap Futures Contracts, the following terms are as defined:

- “Final Settlement Price” the Final Settlement Price shall be determined by the Exchange and will be equal to the Overnight Repo Rate Index calculated over the period of the Contract Month. The Final Settlement Price is rounded to the nearest 1/10th of one basis point (0.001). In the case a decimal fraction ends with 0.0005 or higher, the Final Settlement Price shall be rounded up. The Final Settlement Price is determined on the first business day following the last day of trading.
- “Multiplier” the value of the tick used to calculate the size of the contract as specified by the Exchange on which the Futures trade.
- “Overnight Repo Rate Index” 100 minus the Compounded Overnight Repo Rate
- “Compounded Overnight Repo Rate”

The Compounded Overnight Repo Rate is the rate of return of a daily compound interest investment at the Overnight Repo Rate. It is calculated in accordance with the following formula:

$$\left[\prod_{i=1}^{d_o} \left(1 + \frac{ORR_i \times n_i}{365} \right) - 1 \right] \times \frac{365}{d} \times 100$$

where:

“ d_o ”, the number of Business Days in the calculation period;

“ i ” is a series of whole numbers from one to d_o , each representing the relevant Business Day in chronological order from, and including, the first Business Day in the relevant Calculation Period;

ORR_i = Overnight Repo Rate on the i^{th} day of the calculation period (if the i^{th} day is not a business day, the previous available Overnight Repo Rate is used);

“ n_i ” is the number of calendar days in the relevant Calculation Period on which the rate is ORR_i ;

“ d ” is the number of calendar days in the relevant Calculation Period.

“Overnight Repo Rate”	means the Canadian Overnight Repo Rate <u>(CORRA)</u> published by the Bank of Canada being the weighted average rate of overnight general (non-specific) collateral repo trades on a specified date as reported by the Bank of Canada.
“Underlying Interest”	the Compounded Overnight Repo Rate quoted in terms of an Overnight Repo Rate Index.
“Contract Month”	the period that begins the day following the last Bank of Canada Fixed Announcement Date to the day of the next Bank of Canada Fixed Announcement Date.
“Fixed Announcement Date”	the pre-specified date on which the Bank of Canada announces their decision on the target for the Overnight Repo Rate

Section C-2202 Settlement in Cash Through the Corporation

Unless otherwise specified by the Corporation, settlement of positions held following the close of trading on the last day of trading in a Series of Futures shall be on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the short and long Clearing Members. The amount to be paid or received in final settlement of each position opened on or prior to the last day of trading shall be the difference between

- (i) the Final Settlement Price; and
 - (ii) the Settlement Price of the contract on the last day of trading,
- multiplied by the Multiplier of the contract.

Section C-2203 Tender Notices

Rule C-5 shall not apply to Overnight Index Swap Futures as they are cash-settled.

Section C-2204 Adjustments

No adjustments will ordinarily be made in the terms of the Overnight Index Swap Futures in the event that the Overnight Repo Rate Index is changed. However, if the Corporation shall determine in its sole discretion that any such change causes significant discontinuity in the level of the Overnight Repo Rate Index, the Corporation may adjust the terms of the affected Overnight Index Swap Futures by taking such

action as the Corporation in its sole discretion deems fair to Clearing Members holding Long and Short Positions.

In the event that a governmental agency or body issues an order, ruling, directive or law pertaining to repo transactions and the Corporation determines that a discontinuity in the level of the Overnight Repo Rate Index is caused by such a Government order, it shall take such action as it deems necessary and fair under the circumstances.

Section C-2205 Unavailability or Inaccuracy of Current Value

- (1) If the Corporation shall determine that the Final Settlement Price for any series of Overnight Index Swap Futures is unreported or otherwise unavailable for purposes of calculating the gains and losses, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
 - (a) Suspend the Settlement of Gains and Losses. At such time as the Corporation determines that the required Final Settlement Price is available, the Corporation shall fix a new date for Settlement of the Gains and Losses.
 - (b) Fix the Final Settlement Price in accordance with the best information available as to the correct Final Settlement Price.
- (2) The Final Settlement Price as reported by the Exchange on which the Futures trade shall be conclusively deemed to be accurate except that where the Corporation determines in its sole discretion that there is a material inaccuracy in the reported Final Settlement 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 Final Settlement Price to be used for settlement purposes.