



NOTICE TO MEMBERS

No. 2015 – 032

March 12, 2015

SELF-CERTIFICATION

AMENDMENTS TO THE RISK MANUAL AND TO THE RULES B-5, B-6, B-15 AND D-1 OF CDCC RULES

AMENDMENTS TO THE ELIGIBILITY CRITERIA FOR THE UNDERLYING INTERESTS OF SECURITIES OPTIONS AND ADDITION OF SECURITIES ISSUED BY EXCHANGE-TRADED FUNDS AS UNDERLYING INTERESTS OF SECURITIES OPTIONS UNDER CDCC RULE B-6

On September 20, 2010, the Board of Directors of the Canadian Derivatives Clearing Corporation (CDCC) approved amendments to CDCC Rule B-6. CDCC wishes to inform the Clearing Members that this amendment has been self-certified pursuant to the self-certification process set forth in the *Derivatives Act* (R.S.Q., c I-14.01).

The amendments have a twofold purpose. First, the objective is to adapt Rule B-6 to current market practices. These amendments are, in fact, necessary to bring the eligibility criteria for underlying securities up to date. A second objective is to add provisions containing specific eligibility criteria and causes of ineligibility for securities issued by exchange-traded funds (“ETF”).

You will find attached hereto the amendments set to come into force and to be incorporated into the version of the CDCC Risk Manual and CDCC Rules that will be made available on the CDCC website at www.cdcc.ca as of March 13, 2015.

Since the publication of the Request for Comments (October 15, 2010) a great number of discussions and consultations took place between AMF Staff assigned to this file and CDCC personnel. These exchanges gave rise to a number of amendments made along the way to the draft regulatory amendments initially submitted by CDCC. Most of the time, the changes made to the CDCC Rules were editorial in nature, intended to clarify the wording, harmonize the Rules on an internal level, or correct imperfections, redundancies and inconsistencies as well as concordance errors between the English and French versions. However, some changes are more substantive. More specifically, all changes made to the Rules, other than Rule B-6, and the Risk Manual fall into the first category of changes in that they are ancillary. As regards Rule B-6, however, new definitions have been added since the Request for Comments, including “American Exchange”, “Securities Option”, “Unit”, “ATS” and “Value of Available Public Float”. All other changes to Rule B-6 correspond to the first category in that they involve terminological and concordance updates between the English and French versions.

If you have any questions or concerns regarding this notice, please contact CDCC’s Corporate Operations department or direct your e-mail inquiries to cdcc-ops@cdcc.ca.

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CANADIAN DERIVATIVES CLEARING CORPORATION

RULES

VERSION OF ~~DECEMBER 1~~ST, 2014

RULE B-5 OPTIONS CONTRACT SPECIFICATIONS

Section B-501 Designation of Options

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

Section B-502 Approval of Underlying Interest

Subject to the provisions of sSection B-6, The Underlying Interest of an Option issued by the Corporation and the Unit of Trading of that Underlying Interest shall be approved by the Board following the recommendation of one or more Exchanges.

Section B-503 Withdrawal of Approval of Underlying Interest

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

Section B-504 Terms of Options

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

RULE B-6 ~~SECURITIES TOCK~~ OPTIONS

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

Section B-601 Definitions

Notwithstanding Section A-102, ~~the following definitions shall apply to Rule B-6 for the purposes of Stock Options~~ the following terms shall have the meanings specified:

~~“American American Exchange” means a national securities exchange, as defined in the Securities Exchange Act of 1934, as amended from time to time.~~

~~“American ATS” means an alternative trading system, as defined by the U.S. Securities and Exchange Commission in its Rules, as amended from time to time.~~

~~“ATSs” means Canadian ATSs and American ATSs.~~

~~“American ATS” means an alternative trading system, as defined by the U.S. Securities and Exchange Commission in its Rules, as amended from time to time.~~

~~“Canadian American ATS” means an alternative trading system, as defined in Regulation 21-101 respecting Marketplace Operation, as amended from time to time.~~

~~“Canadian Exchanges” means a recognized exchange, as defined in Regulation 21-101 respecting Marketplace Operation, as amended from time to time. The Toronto Stock Exchange and the TSX Venture Exchange.~~

~~“ETF” means an exchange-traded funds, the Ssecurities of which are listed on a Canadian Exchange.~~

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

~~“North American Volume” means — ffor the purposes of the Option eligibility and ineligibility deficiency of the Underlying Interests of Options, means the aggregate this will include trading volume on all Canadian Exchanges and American Exchanges and on all all the ATSs where the underlying sSecurities are traded from the Montréal Exchange (MX), The Toronto Stock Exchange (TSX), the TSX Venture Exchange (TSXVN), the New York Stock Exchange (NYSE), the American Stock Exchange (AMEX), and the National Association of Securities Dealers Automated Quotations (NASDAQ).~~

~~“Primary Exchange” as regards a specific Ssecurity on a given day, means the Canadian Exchange on which such Ssecurity is listed, if it is listed on only one Canadian Exchange. Where such specific Ssecurity is listed on more than one Canadian Exchange, then it shall mean the such Canadian Exchange which as has the highest trading volume of trades on such sSecurity onfor a~~

~~given day, as determined by the Corporation. The main exchange on which a given stock is listed. The stock may be listed on other exchanges as well; however there can only be one Primary Exchange.~~

~~“Securities Option” means an American Style Option or a European Style Option for which where the Underlying Interest is a class of shares or a class of units.~~

~~“Security” means a share or a unit.~~

~~“Share” means an instrument of title issued by a corporation or an ETF which is an open-end investment company.~~

~~“Underlying Interest” means Securities Stocks meeting the criteria described in this Rule.~~

~~“Unit” means an instrument of title issued by a trust or by an ETF which is a trust.~~

~~“Unit of Trading” means 100 shares of the Underlying Interest, unless otherwise indicated.~~

~~“Value of the Available Public Float” means the value of the available public float as calculated by the following formula: as regards a specific Ssecurity on a given day, the number of units of the Ssecurity outstanding and available for trading by the public, multiplied by the closing price of such Ssecurity on the Primary Exchange.~~

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

Section B-602 Approval of Underlying Interest

- (1) The ~~Securities~~ ~~toek~~ underlying the ~~Securities~~ Options issued by the Corporation shall be approved by the ~~Corporation Board~~ based on criteria described in Section B-603 ~~or B-605~~ of the Rules.
- (2) No more than one Class of ~~Securities~~ Options shall be approved for any one ~~issuer, corporation~~ unless the ~~Corporation Board~~ considers it necessary or advisable, as a temporary measure, that there be additional Classes of Options.

Section B-603 Criteria for Eligibility of ~~the Securities Underlying Securities of Stock~~ Options

- (1) ~~To determine In considering~~ whether any ~~Securities toek~~ should be approved as the Underlying Interest of a ~~Securities toek~~ Option, the ~~Corporation Board~~, in those circumstances where Section B-605~~7~~ does not apply, shall ensure that prior to being approved as an Underlying Interest the ~~Securities toek~~ meets all of the following criteria:
 - (a) the ~~Security toek~~ is listed on a Canadian Exchange;
 - (b) the ~~Value of the Available Public Float Market Capitalization of the Stock~~ is within the top ~~thirty percentile quartile~~ (25~~30~~%) of ~~the aggregate Value of the aAvailable pPublic fFloat Securities~~ listed on all Canadian Exchanges as of the last ~~Business Day trading day~~ of the previous quarter. The specific dollar threshold will be published by the Corporation;

- (c) the daily average monthly North American Volume of the Security ~~for the last twenty (20) Business Days of the previous quarter~~ is within the top thirty percentile quartile ~~(2530%)~~ of the North American Volume of the Securities listed on all Canadian Exchanges as of the last Business Daytrading day of the previous quarter. The specific threshold will be published by the Corporation.
- (2) The Corporation may approve as an Underlying Interest a sSecurity which otherwise does not otherwise meet the eligibility criteria set forth in Subsection B-603(1), but which meets all of the following criteria:
- (a) the Ssecurity is listed on a Canadian Exchange;
 - (b) the sValue of Athe available Ppublic Ffloat is within the top first-thirty percentile (30%) of the aggregate sValue of sAvailable pPublic fFloat listed on all the Canadian Exchanges on the last bBusiness dDay of the current quarter; and
 - (c) the daily average North American Volume of the sSecurity, for the last twenty (20) Bbusiness dDays of the current quarter is within the first-top thirty percentile (30%) of the North American Volume of the sSecurities listed on all the Canadian Exchanges on the last bBusiness dDay of the current quarter.

Section B-604 Ineligibility Deficiency Criteria of for Securities Underlying ~~toek~~ Options

- (1) Except as provided ~~for~~ in Subsection B-604(2), no new Series of a Class of Securities ~~toek~~ Options which is already listed may be opened for trading if any one of the following conditions occurs with respect to the Underlying Interest:
 - (a) the Security ~~toek~~ is no longer listed on a Canadian Exchange;
 - (b) the Value of the Available Public Float Market Capitalization of the Security ~~toek~~ is below the top forty percentile third ~~(3340%)~~ of the aggregate Value of the Available Public Float Securities listed on all Canadian Exchanges as of the last Business Daytrading day of the previous quarter. The specific dollar threshold will be published by the Corporation;
 - (c) the daily average monthly North American Volume of the Security ~~for the last twenty (20) Business Days of the previous quarter~~ is below the top forty percentile third ~~(3340%)~~ of the North American Volume of the Securities listed on all Canadian Exchanges as of the last Business Daytrading day of the previous quarter. The specific threshold will be published by the Corporation.
- (2) In exceptional circumstances and in the interest of maintaining a fair and orderly market or for the protection of investors, the Corporation may agree to clear additional Series of Options with respect to any Underlying Interest which complies with the criteria described in Paragraphs B-604(1)(b) or (c) is deficient under one or more of the criteria set forth in of Subsection B-604(1)-, provided that the Ssecurity is listed on a Canadian Exchange.

Section B-605 Criteria for the Eligibility Criteria of for-ETF Securities as Underlying Interests of Options

- (1) Where the eligibility criteria set forth in section B-603 are not met, to determine whether sSecurities issued by an ETF should be eligible as an Underlying Interest of an Securities Equity-Option, the Corporation may approve the listing thereof as an Underlying Interest, where the ETF meets all the following criteria:
- (a) the sSecurities issued are listed on a Canadian Exchange;
 - (b) the sValue of the sAvailable pPublic fFloat is equal to or greater than CAN\$20 million Canadian dollars;
 - (c) the sSecurities issued may be created or repurchased ~~deemed~~ upon request every ~~on each~~ bBusiness dDay by the ETF for an amount based on the net asset value; and
 - (d) the documentation is deemed satisfactory by the Corporation.
- (2)- The ETF sSecurities eligible as Underlying Interests of eOptions pursuant to Subsection (1) are not subject to the ineligibility criteria set forth in Section B-604.

ArticleB-606 Criteria for the Ineligibility Criteria of ETF Securities as Underlying Interests of Options

No new series of a Celass of ETF Securities Equity-Options already-listed on an exchange under Section B-605 shall be eligible for trading if any one of the in the event that any of the following events occurs in respect of the Underlying Interest-:

- (a) the Ssecurity is no longer listed on a Canadian Exchange;
- (b)- the SSecurities cease to be created or repurchased ~~deemed~~ upon request every bBusiness dDay; and/or
- (c) the documentation is deemed unacceptable by the Corporation.

Section B-6057 Events relating to Underlying Interests of Securities Options Procedure for Assessing the Effect of Stock List Changes on Stock Options Eligibility

(1) Acquisition of a Listed ~~Entity Company~~ by a Newly-Established ~~Entity Company~~

If a newly-established ~~entity company~~ has acquired a listed ~~entity company~~, the trading record and history of the ~~acquired predecessor entity company~~ may be used to test the options eligibility of the ~~sSecurities stock~~ of the new ~~entity, company~~ as provided for in Section B-603.

(2) Name Changes

Corporate name changes have no effect on listed issues options eligibility. All statistics and history prior to the entity name change of the predecessor company continue to apply to the Underlying Interest of such entity under the new corporate name.

(3) **Substitutional Listings**

When a Security ~~toek~~-list change which is the result of a merger or acquisition involving the issuance or acquisition of listed ~~Securities shares~~ has occurred, the eligibility for Securities Options of all listed issues connected with the change shall be are reviewed by the Corporation. No decision to change the option-eligibility status of a listed Underlying Interest issue will occur until after such merger or acquisitionchange the offer or transaction is completed. The general process which applies is as follows:

- (a) (i) ~~it is confirmed by~~ the Corporation shall ensure that each of the entities involved in such merger or acquisitionchange predecessor companies is listed on a Canadian Exchange; or
- (ii) on receipt of the notice of an event relating to the an Underlying Interest of corporate change or following the closing date of a Securities share purchase offer, ~~it is confirmed by~~ the Corporation shall ensure that the Securities of that at least one of the entities involved are an Underlying Interest predecessor company for ~~has~~ Options currently listed on an Canadian Exchange, and these Options are not at or past the date where no new series may be listed if they are classified as delistable by the Corporation, nor is the Underlying Interest for these Options classified as ineligible deficient under according to Section B-604 or Section B-606 of the Rules.
- (b) ~~The It is confirmed by the~~ Corporation shall ensure that, prior to the merger or acquisition involving the issuance or acquisition of listed Securities shares, the sum of the Value of the Available Public Float of the entities involved in the merger or acquisitionchange Market Capitalization of the predecessor companies exceeds meets the criteria set out ~~in Paragraph B-604(1)(b) of the Rules~~ in Paragraph B-603(1)(b) or Paragraph B-603(2)(b) or Paragraph B-605(1)(b);
- (c) ~~It is confirmed by t~~The Corporation shall ensure that the Securities of the resultant entity company are is listed on a Canadian Exchange.
- (d) ~~It is confirmed by t~~The Corporation shall ensure that the e-resultant entity company meets exceeds the criteria set out in ~~Paragraph B-604(1)(b) of the Rules~~ Paragraph B-603(1)(b) or Paragraph B-603(2)(b) or Paragraph Subsection B-605(1)(b).

(4) **New Securities ~~hares~~**

If new Securities shares are created for the purpose of completing a merger or acquisition involving the issuance or acquisition of listed Securities shares, the relationship between the old and new Securities shares will determine whether if the new Securities shares will be treated either as a substitutional, original or supplementary listing by the Corporation. Generally if the new issue is the

only common issue of the ~~entity~~company, then the new issue will be treated as a substitutional issue. Otherwise the issue will be treated as an original or supplementary issue by the Corporation.

Section B-60~~86~~ Good Deliverable Form of ~~Securities~~stocks

A ~~Security certificate representing a Stock~~ shall be deemed to be in good deliverable form for the purposes hereof only if the delivery of such ~~Security certificate~~ would constitute good delivery under the regulations, rules and policies of all of the Exchanges.

Section B-60~~97~~ Delivery of ~~Securities~~tocks-After “Ex-Dividend” Date

- (1) When an Exercise Notice is properly tendered to the Corporation prior to the “ex-dividend” date (as fixed by an Exchange on which the Underlying Interest is listed) for a distribution that causes an adjustment to be made pursuant to the Rules, the delivering ~~Clearing~~ Member shall make delivery as required by such adjustment unless the delivering ~~Clearing~~ Member, the receiving ~~Clearing~~ Member and the Corporation otherwise agree.
- (2) When an Exercise Notice is properly tendered to the Corporation prior to the “ex-dividend” date for a distribution that does not cause an adjustment to be made pursuant to the Rules, and delivery of the Underlying Interest is made too late to enable the receiving ~~Clearing~~ Member to transfer the Underlying Interest into its name and to receive such distribution, the delivering ~~Clearing~~ Member shall, at the time of delivery, issue a payment its cheque to the receiving ~~Clearing~~ Member equal to the for the amount of the distribution, ~~which cheque shall be~~ payable on the payment date of such distribution.
- (3) When an Underlying Interest is listed on more than one Exchange and differing “ex-dividend” dates are fixed by the Exchanges, the earliest date will be considered the “ex-dividend” date for purposes of this Section ~~B-607~~.

RULE B-15 SPONSORED OPTIONS

This Rule B-15 is applicable only to the European or American Style Sponsored Options. The Underlying Interest for a Sponsored Option can be an Index or a Stock.

Section B-1501 Definitions

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

“Aggregate Exercise Date Value” – in the case of a Sponsored Option where the Underlying Interest is an Index, is the closing or opening level of the Index (as specified by its contract specifications) on the Exercise Date multiplied by \$1.00 and multiplied by the number of Units of Trading; and, in the case of Sponsored Options where the Underlying Interest is a Stock, is the closing or opening price of the Stock on the Exercise Date multiplied by the number of Units of Trading;

“Aggregate Exercise Price” – the Exercise Price of a Sponsored Option multiplied by the number of Units of Trading of the Underlying Interest covered by the Sponsored Option;

“Call Exercise Settlement Amount” – The cash difference when the Aggregate Exercise Price is deducted from the Aggregate Exercise Date Value and multiplied by the Foreign Exchange Rate;

“Delivery” – physical delivery made in accordance with the delivery procedure of CDS or any other Central Securities Depository authorised by the Corporation on the Exercise Settlement Date, or on a day as otherwise determined by the Corporation;

“Exercise Date” – with respect to any particular Sponsored Option, the date on which the said Option is exercised pursuant to Section B-1506;

“Exercise Settlement Date” – the date specified by Bourse de Montréal Inc.;

“Expiration Date” – the date specified by Bourse de Montréal Inc.;

“Foreign Exchange Rate” – the designated closing CAN\$/foreign currency exchange spot rate as determined and reported by Bourse de Montréal Inc.;

“Put Exercise Settlement Amount” – The cash difference when the Aggregate Exercise Date Value is deducted from the Aggregate Exercise Price and multiplied by the Foreign Exchange Rate;

“Recognized Exchange” – a recognized exchange according to the definition in Rule One of Bourse de Montréal Inc.;

“Sponsor” – an entity approved by Bourse de Montréal Inc. for the purpose of sponsoring Sponsored Options;

“Sponsored Option” – an Option for which a Sponsor is the sole authorised writer;

“Trading Volume” – for the purposes of determining the eligibility or ~~non-eligibility~~non-eligibility of an underlying interest to a Sponsored Option, the trading volume will include volume from all the Recognized Exchanges on which the Underlying Interest is traded;

“Underlying Interest” – Stocks and Indices meeting the criteria described in this Rule.

Section B-1502 Eligibility Conditions of a Sponsor

In order for an institution to act as a Sponsor it must satisfy the conditions established by Bourse de Montréal Inc. for a Sponsor of Sponsored Options and any other criteria established by the Corporation from time to time.

Section B-1503 Approval of Underlying Interest

- (1) The Stocks underlying the Sponsored Options issued by the Corporation shall be approved by the Board based on criteria described in Section B-1504 of the Rules.
- (2) Except for Sponsored Options, only one Class of Options shall be approved for any one corporation.

Section B-1504 Eligibility Conditions for Underlying Interests of Sponsored Options

In considering whether any Stock should be approved as the Underlying Interest of a Sponsored Option, the Corporation, in those circumstances where Section B-1505 does not apply, shall ensure that prior to being approved as an Underlying Interest the Stock meets all of the following criteria:

- (1) For Sponsored Options where the Underlying Interest is a Stock issued by a Canadian corporation, the Stock meets the Options eligibility criteria described in Section B-603.
- (2) For Sponsored Options where the Underlying Interest is a Stock issued by a non-Canadian entity, the Stock:
 - (i) trades on a Recognized Exchange; and
 - (ii) there are derivatives listed on a Recognized Exchange on that Underlying Interest.
- (3) For Sponsored Options where the Underlying Interest is an Index, the Index or the Index contract must be approved by Bourse de Montréal Inc.

Section B-1505 Procedure for Assessing the Effect of Stock List Changes on Sponsored Options Eligibility

Section B-605 will apply to Sponsored Options where the Underlying Interest is a stock issued by a Canadian entity.

Section B-1506 Exercise of Sponsored Options

Issued and unexpired Sponsored Options may be exercised only in the following manner:

- (i) on the Expiration Date all options will be exercised on a case by case basis in accordance with the contract specifications.
- (ii) in the case of American-style options, on a Business Day other than the Expiration Date a Clearing Member desiring to exercise an Option may tender an Exercise Notice to the Corporation until the Close of Business on such Business Day.

Section B-1507 Trade Reporting of Options Transactions

Notwithstanding Subsection B-201(6) for Sponsored Options each Clearing Member shall have until 1.5 hours prior to the Close of Business on the Business Day following the day on which a transaction took place to notify the Corporation, in the form prescribed, of any error in the report provided to it under Subsection B-201(1). Unless such notification is received by the established deadline, transactions accepted by the Corporation and as contained in the report shall be final and binding upon the Clearing Members reported as parties to such transactions.

Section B-1508 Adjustments

- (1) Section A-902 as applicable to Derivative Instruments will apply to Sponsored Options where the Underlying Interest is an equity related product.
- (2) No adjustments will ordinarily be made in the terms of Sponsored Options where the Underlying Interest is an Index in the event that Underlying Securities are added to or deleted from an Index or when the relative weight of one or more Underlying Securities in an Index is changed. However, if the Corporation determines in its sole discretion that any such addition, deletion or change could cause significant discontinuity in the level of the Index, the Corporation may adjust the terms of the affected Sponsored Options by taking such actions as the Corporation in its sole discretion deems fair to the Clearing Member holding Long and Short Positions in the contracts. Determination with respect to adjustments pursuant to this Section shall be made by the Adjustments Committee provided for in Subsection A-902(2).

Section B-1509 Unavailability or Inaccuracy of Aggregate Exercise Date Value

- (1) If the Corporation determines that the Aggregate Exercise Date Value for the Index underlying any series of Sponsored Options (the “affected series”) is unreported or otherwise unavailable for purposes of calculating the Call and Put Exercise Settlement Amounts for exercised Sponsored Options of the affected series, 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 obligations of exercising and assigned Clearing Members with respect to Sponsored Options of the affected series. At such time as the Corporation determines that the required Aggregate Exercise Date Value is available or the Corporation has fixed the Call and Put Exercise Settlement Amounts pursuant to Paragraph (b) of this Subsection, the Corporation shall fix a new date for settlement of the exercised Sponsored Option.

- (b) Fix the Call and Put Exercise Settlement Amounts for exercised contracts of an affected series in accordance with the best information available as to the correct Aggregate Exercise Date Value.
- (2) The Aggregate Exercise Date Value of an Index as reported by Bourse de Montréal Inc. shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Aggregate Exercise Date Value, 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 Aggregate Exercise Date Value to be used for settlement purposes.

A) Section B-1510 through B-1511 inclusive apply to Sponsored Options Settled through Cash Settlement

Section B-1510 General Rights and Obligations of Clearing Members

Notwithstanding Section B-110, for the purposes of cash settled Sponsored Options:

- (a) A Clearing Member holding a Long Position in a Call Option has the right, to receive from the Corporation, on tender of an Exercise Notice, the Call Exercise Settlement Amount;
- (b) A Clearing Member holding a Short Position in a Call Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay to the Corporation the Call Exercise Settlement Amount;
- (c) A Clearing Member holding a Long Position in a Put Option has the right, to receive from the Corporation, on tender of an Exercise Notice, the Put Exercise Settlement Amount; and
- (d) A Clearing Member holding a Short Position in a Put Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay to the Corporation the Put Exercise Settlement Amount.

Section B-1511 Payment with Respect to Cash Settled Sponsored Options Exercised

Notwithstanding the provisions of Sections B-403 to B-408 inclusive, for the purposes of Sponsored Options, exercised and assigned Sponsored Options shall be settled in cash at Settlement Time on the Exercise Settlement Date.

B) Section B-1512 through B-1513 inclusive apply to Sponsored Options Settled through Physical Delivery

Section B-1512 Good Deliverable Form of Stocks

A Stock held at CDS or any other depository approved by the Corporation shall be deemed to be in good deliverable form for the purposes hereof only if the delivery of such Stock would constitute good delivery under the regulations, rules and policies of Bourse de Montréal Inc.

Section B-1513 Delivery of Stocks After “Ex” Date

- (1) When an Exercise Notice is properly tendered to the Corporation prior to the “ex-dividend” date (as fixed by an Exchange on which the Underlying Interest is listed) for a distribution that causes an adjustment to be made pursuant to the Rules, the delivering Clearing Member shall make delivery as required by such adjustment unless the delivering Clearing Member, the receiving Clearing Member and the Corporation otherwise agree.
- (2) When an Exercise Notice is properly tendered to the Corporation prior to the “ex-dividend” date for a distribution that does not cause an adjustment to be made pursuant to the Rules, and delivery of the Underlying Interest is made too late to enable the receiving Clearing Member to transfer the Underlying Interest into its name and to receive such distribution, the delivering Clearing Member shall, at the time of delivery, issue its cheque to the receiving Clearing Member for the amount of the distribution, which cheque shall be payable on the payment date of such distribution.
- (3) When an Underlying Interest is listed on more than one Exchange and differing “ex-dividend” dates are fixed by the Exchanges, the earliest date will be considered the “ex-dividend” date for purposes of this Section B-1513.

PART D – OVER-THE-COUNTER INSTRUMENTS (“OTCI”)

RULE D-1 CLEARING OF OVER-THE-COUNTER INSTRUMENTS (“OTCI”)

The provisions of this Part D shall apply only to OTCI which are cleared by the Corporation, pursuant to these Rules and to those Clearing Members who are required to make a base deposit to the Clearing Fund for OTCI clearing as set out in Paragraph A-601(2)(c).

Section D-101 Responsibility of Members for OTCI

Every Clearing Member shall be responsible for the clearance of its own OTCI transactions and of the OTCI 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.

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 Account(s) which shall be confined to Firm Transactions of such Clearing Member; and
 - (b) One or more Client Account(s), which shall be confined to the Transactions of its Clients, if the Clearing Member conducts business with the public in OTCI.

Section D-103 Agreement Regarding Accounts

Every Clearing Member shall agree that:

- (1) In respect of any Firm Account, the Corporation shall have a first priority security interest and hypothec on all Long Positions and Short Positions, Securities, Underlying Interest, Margin, and other Margin Deposits in respect of such account as security for all of the Clearing Member's obligations to the Corporation.
- (2) Notwithstanding Subsection A-701(3), in respect of any Client Account, the Corporation shall have a first priority security interest and hypothec on all Long Positions and Short Positions, Securities, Underlying Interest, Margin, and other Margin Deposits in respect of such account as security for the Clearing Member's obligations to the Corporation in respect of such account, except that the Corporation shall not have a security interest and hypothec on the Long Positions in OTCI Transactions that are Options in a Client Account.
- (3) The Corporation may close out the positions in such accounts 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, except that the proceeds of closing out positions in any Client Account shall only be applied to obligations of the Clearing Member to the Corporation with respect to such Client Account.

- (4) Each Clearing Member is responsible for all obligations owed to the Corporation in respect of every account opened by or in respect of such Clearing Member.
- (6) Amounts standing to the credit of a Clearing Member's accounts may be applied by the Corporation towards the payment of any sum due by a Clearing Member to the Corporation, subject to Section A-704(2).

Section D-104 Acceptance Criteria

Acceptance Criteria reflect the acceptance parameters for an OTCI transaction to be cleared by the Corporation. More details concerning these Acceptance Criteria can be found in the Risk Manual (Annex A of the Operations Manual).

- (1) With respect to the transaction:
 - (a) that the Underlying Interest of the OTCI is one of the Acceptable Underlying Interests;
 - (b) that the OTCI 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 OTCI transaction respects the thresholds as defined by the Corporation;
 - (e) that the counterparties involved in the original OTCI 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 Risk 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.
- (3) Exemptions: A Clearing Member requests an exemption from the risk limits prescribed in this article. If the Corporation rejects the exemption request, it will provide reasons for such rejection to the Clearing Member within a reasonable time delay.

For the purpose of the Acceptance Criteria in Paragraph (1) (a) above, with respect to OTCI transactions for which the Underlying Interest is a Security, the Acceptable Underlying Interest contemplated and the Unit of Trading of the Acceptable Underlying Interest shall be approved by the Board or by the Corporation in accordance with the provisions of Rule B-6. The Board may withdraw an Acceptable Underlying Interest that it had previously approved, if it deems, for any reason, that such Underlying Interest shall no longer be approved. The ~~sSecurities~~ ~~stocks~~ contemplated for OTCI that are options shall be approved ~~by the Board~~ by

applying the definitions and criteria identified in Sections B-601, B-603, ~~B-604 (1) and B-605 of the Rules.~~ Although, in exceptional circumstances and for the purpose of maintaining a fair and orderly market or for the protection of investors, the Corporation may accept to clear OTCI that are options on Underlying Interest that comply with Subsection B-604(2) and Subsection B-607(3)~~respect one or many of the criteria of Subsection B-604(1).~~

Section D-105 Novation

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

All OTCI 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.

Section D-106 Obligations of the Corporation

Acceptance by the Corporation of an OTCI 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 OTCI 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.

Notwithstanding the foregoing, the Corporation may reject an OTCI submitted for clearing by a Non-Conforming Member.

Section D-107 Obligations of the Clearing Member

- (1) The Clearing Member responsible for an OTCI transaction requiring an up-front payment shall be obligated to pay to the Corporation the amount of said payment agreed upon in such OTCI transaction. Such payment shall be made as set forth in these Rules not later than the Settlement Time for such OTCI transaction.
- (2) Between the time of the issuance of the Trade Confirmation and the Settlement Time, the Corporation reserves the right to request that the purchasing Clearing Member deposit a Margin 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

- (1) The acceptance of every OTCI transaction by the Corporation as provided in Section D-104 shall be subject to the condition that the Acceptable Marketplace on which such OTCI 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 D-108(1).
- (4) For the purpose of OTCI transactions that are Options, the Corporation is not the issuer of those Options.

Section D-109 Position Management

- (1) A Long Position or a Short Position in OTCI transactions will be created upon the Corporation's acceptance of such OTCI transaction and the resulting Open Positions will be managed in accordance with the Rules.
- (2) For OTCI 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.

Section D-110 Limitation of Liability

For OTCI transactions where there is a Guaranteeing Delivery Agent, the Corporation shall not be responsible for the performance of the obligations related to the OTCI 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.

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

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

For the purposes of OTCI transactions which are Options, Section B-110 shall apply to OTCI 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 OTCI transactions are not issued by the Corporation.



Risk Manual

ACCEPTABILITY OF UNDERLYING INTERESTS

ACCEPTABLE UNDERLYING INTERESTS OF ~~SECURITIES~~EQUITY OPTIONS

- *Section B-603* of the Rules sets out the eligibility criteria for ~~Securities~~Equity Options.
- *Section B-604* of the Rules sets out the ineligibility criteria for ~~Securities~~Equity Options.
- *Section B-605* of the Rules sets out the eligibility criteria for ETF Securities as Underlying Interest of Options.
- *Section B-606* of the Rules sets out the ineligibility criteria for ETF Securities as Underlying Interest of Options.

CDCC reviews and publishes quarterly the eligibility threshold and ~~ineligibility deficiency~~ threshold in terms of ~~value of available public float~~market capitalization and volume (expressed as an average daily ~~North American V~~volume of the last 20 ~~B~~business ~~D~~days) for clearing ~~Securities~~Equity Options.

ACCEPTABLE UNDERLYING INTERESTS OF SHARE FUTURES

- *Section C-1503* of the Rules sets out the eligibility criteria for Share Futures.
- *Section C-1504* of the Rules sets out the ineligibility criteria for Share Futures.

CDCC reviews and publishes quarterly the eligibility threshold and ~~inegibility deficiency~~ threshold in terms of ~~value of available public float~~market capitalization and volume (expressed as an average daily ~~Noth American V~~volume of the last 20 ~~B~~business ~~D~~days) for clearing Share Futures.

ACCEPTABLE UNDERLYING INTERESTS OF OTCI ~~SECURITIES~~ OPTIONS

- *Section D-104* of the Rules sets out the acceptance criteria for OTCI.

CDCC reviews and publishes quarterly on its website a list of ~~the single name equities and ETFs that are~~ Acceptable Underlying Interests for clearing OTCI ~~Securities~~ Options.

Between two quarterly publications of the list of Acceptable Underlying Interests, a Clearing Member who wishes to clear OTCI ~~Securities~~ Options for which an Underlying Interest is not included on the list must obtain the Corporation's prior approval. The Underlying Interest must at least meet the acceptance criteria prescribed in *Section D-104* of the Rules.

ACCEPTABLE UNDERLYING INTERESTS OF CASH BUY OR SELL TRADES

For the application of *Sections D-104* and *D-603* of the Rules, Securities are acceptable for Cash Buy or Sell Trades clearing if they meet the following criteria:

- The issuer must be eligible, which includes the following issues:
 - Bonds and Treasury ~~B~~ills issued by the Government of Canada, including real return issues;
 - Canada Mortgage and Housing Corporation debt securities;
 - Bonds issued by Business Development Bank of Canada;
 - Bonds issued by Export Development Canada;
 - Bonds issued by Farm Credit Canada; and
 - Bonds issued by Canada Post;
 - Bonds issued by certain provincial governments and provincial Crown corporations determined as acceptable by CDCC¹, excluding real return ~~bonds~~issues, zero coupon bonds, and bonds with a maturity of less than one year.
- The bonds must be repayable at maturity;
- The bonds must be denominated in Canadian dollars;
- The coupon type must be fixed, real return, step-up or zero (Treasury ~~B~~ills are eligible);
- The net amount outstanding² must be greater than or equal to \$250 million;
- The bonds' prices must be issued by a source that is acceptable to the Corporation.

ACCEPTABLE UNDERLYING INTERESTS OF REPURCHASE TRANSACTIONS

For the application of the provisions of *Sections D-104* and *D-603* of the Rules, Securities are eligible for clearing of Repurchase Transactions~~s~~ if they meet the following criteria:

- The Underlying Interest must be an Acceptable Underlying Interest~~s~~ of Cash Buy or Sell Trades;
- The Purchase Date of the Repurchase Transaction must be no earlier than the Novation Date;
- The Repurchase Date of the Repurchase Transaction must not be more than 365 days later than the Purchase Date of the Repurchase Transaction and must be no later than the maturity date of the Acceptable Security.

¹ To be acceptable ~~to~~by CDCC, the credit rating of the issuer must be investment grade and not lower than 6 notches below the credit rating of the Government of Canada, as stated by Standard & Poor's (or another recognized rating agency). For example, if the Government of Canada has an AAA rating, the lowest rating eligible would be A-.

² The net amount outstanding is defined as the outstanding amount issued on the market minus the stripped coupon bonds and issuer repurchases.
