



NOTICE TO MEMBERS

No. 2015 – 064

May 22, 2015

SELF-CERTIFICATION

AMENDMENTS TO THE RULES AND RISK MANUAL OF CDCC COLLATERAL FRAMEWORK

On October 31, 2014, the Board of Directors of the Canadian Derivatives Clearing Corporation (CDCC) approved amendments to the Rules and Risk Manual of CDCC. CDCC wishes to inform the Clearing Members that this amendments have been self-certified pursuant to the self-certification process set forth in the *Derivatives Act* (R.S.Q., c I-14.01) and approved by the Ontario Securities Commission in accordance with the “Rule Change Requiring Approval in Ontario” process.

The purpose of the amendments are to revise CDCC’s list of eligible collateral and modify and introduce new limits pertaining to liquidity requirements, concentration limits and wrong-way risk limits in accordance with the Principles for Financial Market Infrastructure (PFMI).

You will find attached hereto the amendments set to come into force and to be incorporated into the version of the Rules and Risk Manual of CDCC that will be made available on the CDCC website at www.cdcc.ca as of May 25, 2015.

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.

Glenn Goucher
President and Chief Clearing Officer

Canadian Derivatives Clearing Corporation

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RULE A-6 CLEARING FUND DEPOSITS

Section A-601 Clearing Fund Maintenance and Purpose

- (1) The Corporation shall establish a Clearing Fund relating to all Transactions cleared by the Corporation. Each Clearing Member admitted to clear Transactions at the Corporation shall maintain a deposit in the Clearing Fund of the amounts from time to time required by the Rules. The Clearing Fund shall be used for the purposes set out in Section A-609 and Subsection A-701(2).
- (2) The Clearing Fund base deposits are as follows:
 - (a) Options Clearing Base Deposit - \$25,000 Cash or equivalent value (as set out in Section A-608) of Acceptable Treasury Bills.
 - (b) Futures Clearing Base Deposit - \$75,000 Cash or equivalent value (as set out in Section A-608) of Acceptable Treasury Bills.
 - (c) OTCI Clearing Base Deposit (other than Fixed Income Transactions) - \$100,000 Cash or equivalent value (as set out in Section A-608) of Acceptable Treasury Bills.
 - (d) Fixed Income Transactions Clearing Base Deposit - \$1,000,000 Cash or equivalent value (as set out in Section A-608) of Acceptable Treasury Bills.

Section A-602 Amount of Clearing Funds

The aggregate amount of the Clearing Funds to be deposited by all Clearing Members at the close of each calendar month shall be equivalent to the Uncovered Residual Risk. The amount of the Clearing Funds to be deposited by each Clearing Member shall be calculated according to Section A-603.

Section A-603 Amount of Deposit

- (1) The required deposit of each Clearing Member to the Clearing Fund shall be an amount equal to the total of:
 - (a) an Options Clearing Base Deposit, if the Clearing Member has been accepted to clear Options;
 - (b) a Futures Clearing Base Deposit, if the Clearing Member has been accepted to clear Futures;
 - (c) an OTCI Clearing Base Deposit, if the Clearing Member has been accepted to clear OTCI transactions other than Fixed Income Transactions;
 - (d) a Fixed Income Transactions Clearing Base Deposit, if the Clearing Member has been accepted to clear Fixed Income Transactions; and
 - (e) a Variable Deposit equal to the amount by which (i) the Clearing Member's contribution to the Corporation's Uncovered Residual Risk exceeds (ii) such Clearing Member's Base Deposits.

- (2) Each Clearing Member's contribution shall be determined by imposing a market-driven stress test on their portfolio against the Uncovered Residual Risk, in accordance with the methodology set forth in the Risk Manual.

Section A-604 Changes in Requirement

The required amount of Base and Variable Deposits made by Clearing Members may be altered from time to time by the Corporation as a result of an amendment to the Rules. If the deposit to the Clearing Fund to be made by a Clearing Member is thereby increased, the increase shall not become effective until the Clearing Member is given 3 Business Days prior written notice of such amendment. Unless a Clearing Member notifies the Corporation in writing that it wishes to terminate its membership and closes out or transfers all of its aggregate positions in the relevant instrument before the effective date of such amendment, such Clearing Member shall be liable to make the increased deposit whenever it is required of all Clearing Members.

Section A-605 Clearing Fund Statement

At the opening of business on the first Business Day of each calendar month, the Corporation shall issue to each Clearing Member a Clearing Fund statement that shall list the current amount of such Clearing Member's deposit to the Clearing Fund and the amount of deposit required of such Clearing Member on the basis of the preceding 60 days' Uncovered Residual Risk amount (from the close of the previous calendar month). Any surplus over and above the amount required or any deficit to be satisfied will also be shown.

Section A-606 Additional Clearing Fund Deposit

Whenever a Clearing Member's Clearing Fund statement shows a deficit, such Clearing Member shall satisfy the deficit by a deposit in a form approved by the Corporation no later than 2:00 p.m. on the Business Day following the issuance of the Clearing Fund statement.

Section A-607 Withdrawals

In the event that the Clearing Fund statement of the Clearing Member shows a surplus, a Clearing Member may request the withdrawal of such surplus by submitting a withdrawal request in the form and delay prescribed by the Corporation.

Section A-608 Form of Deposits

- (1) In addition to Base Deposits made pursuant to the requirements of Subsection A-601(2), Variable Deposits to the Clearing Fund shall also be in the form of Cash and/or in Acceptable Treasury Bills which shall be valued at a discounted rate, as determined by the Corporation from time to time in accordance with the methodology set forth in the Risk Manual, of their market value; if no market value is generally available for such ~~Government Securities~~Acceptable Treasury Bills, they shall be valued at an amount determined by the Corporation. Substitutions may be made with the prior approval of the Corporation. Deposits in Cash shall be transferred by irrevocable funds transfer to the Corporation and may, from time to time, be partially or wholly invested by the Corporation for its account. To the extent not so invested, they shall be deposited to the credit of the Corporation in such financial institutions as the Board may select. Deposits in Cash shall not be used by the Corporation as working capital but any interest or gain received or accrued on the investment of such funds shall belong to the Corporation.

- (2) The Clearing Fund deposit shall be deemed to be deposited with the Corporation at the time the Corporation accepts the Cash and/or Acceptable Treasury Bills. All interest or gain received or accrued on any Acceptable Treasury Bills, prior to any sale, negotiation or pledge thereof, shall belong to the depositing Clearing Member.

Section A-609 Application of Clearing Fund

- (1) The Corporation shall apply the Non-Conforming Member's Margin Deposit (including, without limitation, Margin and Clearing Fund), as well as the Clearing Fund deposits of other Clearing Members in accordance with Subsection A-609(2), as set out in Subsection A-701(2) and in accordance with the methodology set forth in the Default Manual.
- (2) If the amount of the undischarged obligation, payment, loss or expense exceeds the total value of the Non-Conforming Member's Margin Deposit (including, without limitation, Margin and Clearing Fund), and if the Clearing Member fails to pay the Corporation the amount of the deficiency on demand, the Corporation shall apply its own capital resources specifically set aside for such purpose up to the maximum amount set forth in the Default Manual, and if the amount of the deficiency exceeds such amount, the remaining shall be paid out of the Clearing Fund and charged pro rata, based on the size of each of the other Clearing Members' Clearing Fund deposits at that time, against all other Clearing Members' Clearing Fund deposits, subject to and in accordance with the methodology set forth in the Default Manual. Notwithstanding such pro rata charges made against each of the other Clearing Members, the Non-Conforming Member who failed to pay the deficiency shall remain liable to the Corporation for the full amount of such deficiency until repayment thereof.
- (3) Whenever any pro rata charges are made against Clearing Members' deposits to the Clearing Fund, the Corporation shall promptly notify all Clearing Members of the amount of the charge and the reasons therefor. For the purposes of this Section A-609, the amount of any loss sustained by the Corporation shall be determined without reference to the possibility of any subsequent recovery in respect thereof, through insolvency proceedings or otherwise, but the net amount of any such recovery shall be applied in accordance with Section A-612.
- (4) Without limiting the rights of the parties under Section A-607 and Subsections A-609(1) and (2), at the sole discretion of the Corporation, all property deposited with the Corporation as a Clearing Fund deposit by any and all Clearing Members may be pledged, repledged, hypothecated, rehypothecated or transferred by the Corporation as security for, or in connection with, the Corporation's own obligations to any person incurred in order (a) to obtain liquidity or credit for the purpose of assisting the Corporation to honour its obligations on a timely basis further to the designation by the Corporation of a Clearing Member as being a Non-Conforming Member, or (b) to fund a payment obligation of the Corporation which arises pursuant to a Failed Delivery under Subsection A-804(1) by any Clearing Member, and any such security or transfer will be effective without the holder or recipient thereof being required to make any enquiry as to whether the applicable obligations have been incurred for the purposes set out in this Subsection A-609(4) or whether the funds so obtained are being used for such purposes. Without limiting the rights of the Corporation under Subsection A-701(2), at the sole discretion of the Corporation, in the case of the situation described in (a) above, the Corporation shall pledge the Non-Conforming Member's Margin Deposits (including, without limitation, Margin and Clearing Fund), in accordance with Subsection A-701(5), before pledging the Clearing

Fund deposits of other Clearing Members. In the case of the situation described in (b) above, the Corporation shall pledge the Clearing Fund deposits of the Provider of Securities responsible for the Failed Delivery before pledging the Clearing Fund deposits of other Clearing Members. The Corporation shall be deemed to continue to hold all property deposited with the Corporation as Clearing Fund deposits, regardless of whether the Corporation has exercised its rights under this Subsection A-609(4).

Section A-610 Making Good on Charges to Clearing Fund

Whenever an amount is paid out of the Clearing Fund deposits of other Clearing Members, in accordance with Subsection A-609(2), such Clearing Members shall be liable to make good the deficiency if any in their deposits resulting from such payment no later than 2:00 p.m. on the Business Day following the date that the amount is paid out. Notwithstanding the foregoing, Clearing Members will not be liable to make good more than an additional 100% of the amount of their Clearing Fund deposits then prescribed by the Rules with respect to the default of any one Clearing Member.

Section A-611 Deposit Refund

- (1) Whenever a Clearing Member ceases to be a Clearing Member with respect to all Transactions covered by the Clearing Fund, the amount of its Clearing Fund deposit, relating to the Transactions no longer being cleared, shall be returned, subject to the time limit specified in Subsection A-611(2), but not until all Transactions of the Clearing Member from which losses or payments chargeable to the Clearing Fund might result have been fulfilled or closed, or with the approval of the Corporation, another Clearing Member has been substituted thereon. All amounts chargeable against a Clearing Member's deposit in the Clearing Fund on account of Transactions effected whilst a Clearing Member, including pro-rata charges, shall be deducted from the amount to be returned.
- (2) Thirty days after all outstanding items have been eliminated from the Clearing Member's accounts with the Corporation the balance of the Clearing Fund deposit owed to the former Clearing Member will be paid to that former member.

Section A-612 Recovery of Loss

- (1) If a loss charged pro-rata against the deposits of Clearing Members in the Clearing Fund is afterward recovered by the Corporation from the Clearing Member whose failure to pay led to the loss being charged, in whole or in part, the net amount of such recovery shall be paid or credited to the Clearing Members against whose deposit the loss was charged in proportion to the amount charged against their respective deposits, whether or not they are still Clearing Members.
- (2) Any Clearing Member that has had a loss charged against its deposit under Section A-609(2), shall have the right to claim from the Clearing Member whose failure to pay a deficiency led to the loss being charged and the Clearing Member shall be obligated to reimburse such other Clearing Member, the amount so charged against the Clearing Member's deposit.

RULE A-7 MARGIN REQUIREMENTS

Section A-701 Margin Maintenance and Purpose

- (1) Prior to the Settlement Time on every Business Day, every Clearing Member shall be obligated to deposit Margin with the Corporation, as determined by the Corporation, in respect of
 - (a) each Long Position,
 - (b) each Short Position,
 - (c) each Assigned Position,
 - (d) each exercised Option position, and
 - (e) each tendered Futures position.

in each account maintained by such Clearing Member with the Corporation at the opening of such Business Day, including each such position that arises out of a Transaction having a Settlement Time on such Business Day, but excluding Short Positions and Assigned Positions for which either the Underlying Interest or the Underlying Interest Equivalent as specified in Section A-708 has been deposited with the Corporation. When determining whether additional Margin is required from a Clearing Member, the Corporation shall take into account, subject to Subsection A-704(2), all Margin Deposits deposited by or on behalf of such Clearing Member with the Corporation (and not returned to such Clearing Member).

- (2) The Corporation shall apply the Non-Conforming Member's Margin Deposit (including, without limitation, Margin and Clearing Fund), subject to Subsection A-701(3), to the discharge of:
 - (a) the Non-Conforming Member's obligation with respect to any Transaction accepted by the Corporation, whether such failure is caused or not by the Non-Conforming Member;
 - (b) a failure or anticipated failure to make any payment to the Corporation required of a Non-Conforming Member, whether such failure is attributable to the Non-Conforming Member or not;
 - (c) any loss or expense anticipated or suffered by the Corporation upon the liquidation of the Non-Conforming Member's position;
 - (d) any loss or expense anticipated or suffered by the Corporation pertaining to the Non-Conforming Member's obligations in respect of exercised Options or tendered Futures or OTCI for which settlement has not yet been made or in connection with hedging transactions effected for the account of the Corporation pursuant to Rule A-4 in respect of the Non-Conforming Member's positions in Options, Futures and OTCI;

- (e) any protective or hedging transaction effected for the account of the Corporation pursuant to Rule A-4 in respect of the Non-Conforming Clearing Member's positions in Options and Futures;
- (f) any protective or hedging transaction effected for the account of the Corporation pursuant to Rule A-4 in respect of the Non-Conforming Clearing Member's positions in any OTCI; or
- (g) any other situation determined by the Board.

(3) Each Clearing Member grants to and in favour of the Corporation a first ranking pledge of, lien on and security interest and hypothec in, all property including, without limitation, property deposited as Margin Deposit (including, without limitation, Margin and Clearing Fund) deposited by the Clearing Member with the Corporation or which may, from time to time be in the possession or control of the Corporation, or in the possession or control of a person acting on behalf of the Corporation, to secure the performance by the Clearing Member of all of its obligations to the Corporation, provided, however, that Margin Deposits with respect to a Client Account shall only secure the performance by the Clearing Member of its obligations in respect of that Client Account, and Margin Deposits with respect to a Market Maker Account shall only secure the performance by the Clearing Member of its obligations in respect of that Market Maker Account. Notwithstanding the foregoing, if the Clearing Member does not identify its Margin Deposits with respect to each of its accounts, the Corporation shall use all Margin Deposits without distinction as securing all the obligations of the Clearing Member in respect of all its accounts. The Clearing Member shall execute and deliver to the Corporation such other documents as the Corporation may from time to time request for the purpose of confirming or perfecting the pledge, lien, security interest and hypothec provided to the Corporation by the Clearing Member; provided that the failure by the Corporation to request or by the Clearing Member to execute and deliver such documents shall not limit the effectiveness of the foregoing sentence.

(4) Except as permitted under Subsection A-609(4) in respect of Clearing Fund deposits, and without limiting the right of the Corporation to invest the Margin Deposits in the form of cash under Subsections A-608(1) and A-709(1), the Corporation shall not pledge, repledge, hypothecate, rehypothecate or transfer any property deposited by a Clearing Member which has not been designated as a Non-Conforming Member by the Corporation as Margin Deposit as security for, or in connection with, the Corporation's own obligations to any person.

(5) Without limiting the rights of the Corporation under Subsection A-701(2), at the sole discretion of the Corporation, all property deposited with the Corporation as Margin Deposit (including, without limitation, Margin and Clearing Fund) by a Clearing Member which has been designated as a Non-Conforming Member may be pledged, repledged, hypothecated, rehypothecated or transferred by the Corporation as security for, or in connection with, the Corporation's own obligations to any person incurred in order to obtain liquidity or credit for the purpose of assisting the Corporation to honour its obligations on a timely basis further to the designation by the Corporation of such Clearing Member as being a Non-Conforming Member. In such circumstances, the Corporation shall pledge such Non-Conforming Member's Margin Deposits before pledging the Clearing Fund deposits of other Clearing Members, in accordance with Subsection A-609(4). The Corporation shall be deemed to continue to hold all Margin Deposit deposited with the Corporation, regardless of whether the Corporation has exercised its rights under this Subsection 701(5).

Section A-702 Discretionary Margin Rule

The amount of Margin Deposits which may be required from a Clearing Member ~~may otherwise be required to deposit with the Corporation~~ pursuant to this Rule A-7 may be varied by the Corporation at any time and from time to time without advance notice whenever the Corporation, in its sole discretion, considers such variation necessary or advisable for the protection of the Corporation, Clearing Members or the investing public.

Section A-703 Daily Margin Activity Report

- (1) Each Business Day, the Corporation shall issue to each Clearing Member for each account maintained by the Clearing Member with the Corporation a report ("Daily Margin Activity Report") which shall show the amount of Margin required to be deposited with the Corporation by virtue of the Clearing Member's positions. All Margin requirements shall be satisfied by Settlement Time on each Business Day notwithstanding any error in such report.
- (2) If for any reason the Daily Margin Activity Report is not available to a Clearing Member, it shall be the responsibility of that Clearing Member to ascertain from the Corporation the amount of Margin required to be deposited with the Corporation, so that the Margin requirements are met before Settlement Time each Business Day.

Section A-704 Withdrawals of Margin

- (1) Subject to Subsection A-704(2), in the event that on any particular day the amount of a Clearing Member's Margin on deposit exceeds the amount required to be deposited by such Clearing Member on such day pursuant to this Rule A-7, as shown by a report ("Deposits/Withdrawals Report") for such day, the Corporation shall authorize the withdrawal of the amount of the excess upon the submission to the Corporation, by such Clearing Member during the hours specified by the Corporation, of a withdrawal request in the form prescribed by the Corporation provided that the Clearing Member shall provide the Corporation with sufficient prior notice of such withdrawal request as set out in the Operations Manual.
- (2) If a Clearing Member has excess Margin deposited in respect of any Firm Account, the Corporation shall be entitled to apply such excess (or a portion thereof) as is necessary to meet the Margin requirements in respect of a Client Account or Market Maker Account. If a Clearing Member has excess Margin deposited in respect of any Client Account or any Market Maker Account, the Clearing Member shall not be entitled to apply such excess (or a portion thereof) to meet the Margin requirements in respect of a Firm Account; provided, however, that if the Clearing Member does not identify its Margin Deposits with respect to each of its accounts, the Corporation shall apply the Margin deposited by a Clearing Member indistinctively to meet the Margin requirements in respect of all its accounts.

Section A-705 Intra-Day Margin Calls

- (1) Section 2 of the Operations Manual specifies one Intra-Day Margin Call in the morning (the "Morning Intra-Day Margin Call") and another one in the afternoon (the "Afternoon Intra-Day Margin Call"). The Corporation may also require the deposit of supplementary Margin by any Clearing Member in any account at any time during any Business Day which the Corporation, in its sole discretion, considers necessary or advisable to reflect changes during such day in the Market Price of any Underlying Interest, or changes in the financial position of the Clearing Member or to protect the Corporation, Clearing Members or the public.

- (2) Subject to Subsection A-704(2), if a Clearing Member has excess Margin on deposit with the Corporation, the Corporation shall be entitled, upon determining that supplementary Margin is required, immediately to apply such portion of the excess Margin as is necessary to meet the supplementary Margin requirements. The Corporation shall notify the Clearing Member as soon as practicable of such application. If there is no excess Margin then on deposit, the Corporation will notify the Clearing Member of the amount of supplementary Margin required. Such supplementary Margin shall be deemed to be owing upon a Clearing Member receiving notice thereof and shall be deposited by the Clearing Member within one hour of the Clearing Member receiving such notice, or such longer time as may be permitted by the Corporation. Credit for all such supplementary Margin deposits, shall be reflected on the Daily Settlement Summary Report on the following Business Day.

Section A-706 Margin Calculations

The Corporation uses SPAN® for its risk-based Margin system which analyzes Options and Futures positions in each account of each Clearing Member. The system projects a liquidating value for each such account and collects sufficient Margin to cover the Corporation's projected costs in the event that such a liquidation should be required. Offsetting positions are considered and, where determined prudent, the Corporation may reduce its Margin requirements.

The Corporation uses a proprietary margining system for the purposes of margining any OTCI transactions presented to the Corporation for clearing. The components of margin for all OTCI transactions are as follows:

- (a) Outstanding settlement amounts not yet paid;
- (b) Mark-to-Market Valuation from current Open Positions within each account; and
- (c) A worst-case liquidating value for each account.

Margin off-sets are considered in the margining process and where determined prudent, the Corporation may reduce the Margin ~~Requirements~~requirements for specific accounts.

The Corporation provides Clearing Members with information on the calculation of Margins on request.

Section A-707 Margin on Options Spread Positions Carried in Client Accounts

- (1) Where a Clearing Member maintains an Options Spread Position in its Client Account, the Clearing Member may inform the Corporation of this fact with a view to reducing the Margin required on the positions held in that account by filing a report ("Options Spread Position Report") with the Corporation.
- (2) Each Clearing Member shall maintain a record of each Spread Position held for in its Client Account identifying the client, the Client Account in which the Spread Position is held, and the specified Long Positions and Short Positions making up the Spread Position.
- (3) Prior to the time established by the Corporation, on every Business Day, each Clearing Member shall inform the Corporation, in the form prescribed, of the quantity and

composition of any additions to or deletions from the Spread Positions carried for individual clients.

- (4) No Clearing Member shall inform the Corporation of a Spread Position or permit a Spread Position to remain recorded by the Corporation unless the Clearing Member is simultaneously carrying in the relevant Client Account Long and Short Positions for an equal number of Options of the same Class of Options and the ~~margin~~Margin required to be deposited by such client in respect of such positions has been reduced accordingly. The filing by a Clearing Member of an Options Spread Position Report shall constitute the certification by the Clearing Member to the Corporation that such filing is authorized, is in accordance with the foregoing and is in compliance with all applicable laws and regulations.
- (5) If a Client Account with the Corporation has Spread Positions for a Series of Options in respect of which the Corporation has been notified and the total Long Position in such Series of Options is reduced by the filing of an Exercise Notice or the execution of a closing transaction in such account, such reduction shall also be applied by the Corporation against the Spread Position in such account. If the Clearing Member wishes such reduction to be applied in a different manner, it shall so instruct the Corporation by filing an appropriate spread instruction.

Section A-708 Underlying Interest and Underlying Interest Equivalent

Clearing Members shall NOT be required to deposit Margin in respect of Short Positions in Futures or Options for which they have deposited the Underlying Interest or Underlying Interest Equivalent as herein defined.

- (1) For **CALL OPTIONS** the Underlying Interest or Underlying Interest Equivalent shall mean:
 - (a) Equity Options –
 - (i) the underlying Security or any Security exchangeable or convertible without restriction, other than the payment of Cash, into the underlying Security shall be acceptable, provided that neither the Security nor the right to exchange or convert lapses throughout the life of the Option. Where the payment of money is a condition of conversion such Cash shall be deposited with the Corporation at the same time as the convertible Security. This provision applies to warrants, rights, and convertible Securities.
 - (ii) a Call Underlying Interest Deposit issued by an Approved Depository in favour of the Corporation.
 - (b) Bond Options – Government of Canada Bonds (excluding Canada Savings Bonds) which:
 - (i) are the underlying bond; or
 - (ii) have been determined by the Corporation as acceptable on the basis that they:

- have higher coupon rates;
- have an aggregate face value at maturity of at least \$1,000,000,000;
- trade at a premium of \$5 greater than the underlying bond; and
- mature no sooner than 2 years prior to the underlying bond.

- (c) Silver Options – silver certificates issued by organizations acceptable to the Corporation.
 - (d) Cash Settlement Options
 - (i) Government Securities as specified in Section A-709 equal in value to the aggregate current value (which for the purposes of this Section have the meaning attributed thereto in Section B-1001 as the context requires) of the Option at the close of trading on the Business Day prior to the deposit.
 - (ii) If the value of the government Securities deposited for each contract falls below the value of the aggregate current value on any Business Day the Corporation may call for an additional deposit or Margin.
 - (e) Options on short term money-market instruments expiring in one year or less
The Underlying Interest or any other instrument acceptable to the Corporation.
 - (f) Futures Options – Government of Canada Bonds (excluding Canada Savings Bonds) which:
 - (i) are the underlying bond; or
 - (ii) have been determined by the Corporation as acceptable.
 - (g) Gold Options – gold certificates issued by organizations acceptable to the Corporation.
- (2) For **PUT OPTIONS** Underlying Interest and Underlying Interest Equivalent shall mean:
- (a) Cash deposited at the Corporation in the amount of the relevant Exercise Price,
 - (b) a Put Escrow Receipt issued by an Approved Depository in favour of the Corporation.
- (3) For **FUTURES** Underlying Interest and Underlying Interest Equivalent shall mean:
- (a) any Underlying Interest which would be considered to be in Good Deliverable Form on the corresponding Futures contracts.
 - (b) a Futures Underlying Interest Deposit issued by an Approved Depository in favour of the Corporation.

For cash settlement Futures, the Corporation may impose from time to time at its sole discretion Margin requirements on the Underlying Interest or Underlying Interest Equivalent as determined by the Corporation.

Section A-709 ~~Forms of Margin~~ Eligible Collateral

~~Required~~—Margin requirements may be ~~deposited~~fulfilled by depositing with the Corporation, subject to Section A-212, ~~in~~ one or more of the following forms of eligible collateral which meet certain criteria as described in the Risk Manual:

- (1) **Cash** - Clearing Members may deposit Cash by way of an irrevocable funds transfer to the Corporation. Funds so deposited may, from time to time, be partially or wholly invested by the Corporation for its account and, to the extent not so invested, shall be deposited to the credit of the Corporation in such financial institutions as the Board may select. Any interest or gain received or accrued on the investment of such funds shall belong to the Corporation. Such funds shall not be used by the Corporation as working capital.

- (2) **Government Debt Securities** — Clearing Members may deposit, ~~as hereinafter provided, Acceptable Treasury Bills and such other government~~ with the Corporation debt Securities as may be specified by the Corporation, which are respect certain eligibility criteria determined by the Corporation in the Risk Manual ("Debt Securities"). The Corporation establishes, reviews on a regular basis and publishes the list of eligible Debt Securities on its web site.

Debt Securities shall be freely negotiable and ~~which~~ shall be valued at a discounted rate to their market value, as determined by the Corporation from time to time in accordance with the methodology set forth in the Risk Manual. Such valuation rate shall be applied to the ~~Market Value~~market value of the relevant Securities. ~~"Market Value"~~value as used in this Subsection A-709(2) shall be determined on the close of each Business Day by the Corporation through reference to one or more data supply services retained by the Corporation for such purpose. If a market value is required to be determined on a non-Business Day, and the data supply service does not provide a market value for such day, the market value on the immediately preceding Business Day shall be used. If no market value is generally available for any ~~government Debt~~ government Debt Securities accepted by the Corporation as ~~a form of Margin~~eligible collateral, such Securities shall be valued at an amount determined by the Corporation.

The ~~government Debt~~ government Debt Securities shall be deemed to be deposited with the Corporation at the time the Corporation accepts the ~~government Debt~~ government Debt Securities as Margin. All interest or gain received or accrued on such ~~government Debt~~ government Debt Securities prior to any sale or negotiation thereof shall belong to the depositing Clearing Member and such interest will be paid to such depositing Clearing Member by the relevant issuer.

~~For each Clearing Member, at least two thirds of the total Margin required against all of its accounts combined must be covered by Cash, Acceptable Treasury Bills or any combination thereof.~~

- (3) ~~Canada Mortgage Bonds~~ — Clearing Members may deposit, ~~as hereinafter provided, Canada Mortgage Bonds as may be specified by the Corporation, which are freely negotiable and which shall be valued at a discounted rate to their market value, as determined by the Corporation from time to time in accordance with the methodology set~~

forth in the Risk Manual. Such valuation rate shall be applied to the Market Value of the relevant Securities. "Market Value" as used in this Subsection A-709(3) shall be determined on the close of each Business Day by the Corporation through reference to one or more data supply services retained by the Corporation for such purpose. If a market value is required to be determined on a non-Business Day, and the data supply service does not provide a market value for such day, the market value on the immediately preceding Business Day shall be used. If no market value is generally available for any Canada Mortgage Bonds accepted by the Corporation as a form of Margin, such Securities shall be valued at an amount determined by the Corporation.

The Canada Mortgage Bonds shall be deemed to be deposited with the Corporation at the time the Corporation accepts the Canada Mortgage Bonds as Margin. All interest or gain received or accrued on such Canada Mortgage Bonds prior to any sale or negotiation thereof shall belong to the depositing Clearing Member and such interest will be paid to such depositing Clearing Member by the relevant issuer.

(4) Valued Securities

(a) **(3) Valued Securities -** In addition to the Underlying Interest and Underlying Interest Equivalent which may be deposited under Section A-708, Clearing Members may deposit any Security listed on any duly recognized Canadian Exchange (such Security, a "Valued Security"), against their total Margin requirements. This Margin shall be deemed to be deposited with the Corporation at the time the Corporation accepts the Securities with the Corporation certain Security which respect certain eligibility criteria determined by the Corporation in the Risk Manual ("Valued Security").

(b) No value will be given for any Valued Security on any one day when the closing price thereof or, if there was no trading in such Valued Security on such day on any applicable Exchange, the previous closing price is less than \$10 on any applicable Exchange.

(c) The Valued Securities so shall be deemed to be deposited will be marked to with the Corporation at the time the market daily and 50% of this daily value applied against Corporation accepts the total Margin required against all accounts combined.

(d) No more than 10% of the total Margin required against all accounts combined may be covered by any one Valued Security.

(e) For each Clearing Member, no more than 15% of the total Margin required against all of its accounts combined may be covered by Valued Securities as Margin.

(f) No value will be given for any Valued Securities deposited by a Clearing Member if such Valued Securities are issued by an Affiliate of such Clearing Member.

(5) Other Forms of Margin Deposit—The Corporation may from time to time and at its sole discretion accept other forms of Margin deposit as determined in its sole discretion. The Corporation may alter any such accepted form of deposit and may at any time eligible collateral or cease accepting any alternative form of deposit previously accepted by it. Where a previously

~~accepted form of deposit is determined to be no longer acceptable by form of eligible collateral and~~
~~require, if applicable, the replacement of such collateral. When~~ the Corporation, ~~it ceases to~~
~~accept a form of eligible collateral, the Corporation~~ shall notify all Clearing Members who, ~~where~~
~~required,~~ shall promptly replace all ~~such unacceptable forms of deposit with forms of deposit~~
~~acceptable to collateral deposited with~~ the Corporation ~~with eligible collateral.~~

Section A-710 Daily Capital Margin Monitoring Calls

The Corporation will monitor the Margin requirement of a Clearing Member as a percentage of its capital. In the event that this ratio exceeds 100%, additional margin in the amount of the excess over the ratio of 100% will be collected from the Clearing Member in the form of acceptable Margin in accordance with Section A-709.

COLOR CODE

Black: Existing wording which has been removed (~~strikethrough~~).

Red: Proposed new section relatively new in substance and wording.

Blue: Existing wording which has been modified, the result of which should be substantially equivalent to existing wording.

ELIGIBLE COLLATERAL

~~The forms of collateral that may be deposited with CDCC are prescribed in Section A-608 and Section A-709 of the Rules.~~

~~The different forms of collateral are valued by accounting for their potential loss in the event that liquidation is required. Accordingly, the value of the Margin Deposits is discounted in relation to their market value. This discount, commonly called the Haircut, applies to Valued Securities, Canada Mortgage Bonds and Government Securities, as prescribed in Section A-709 of the Rules.~~

~~For the purposes of application of the provisions of Section A-608 and Section A-709 of the Rules, CDCC proceeds as follows:~~

FORMS OF COLLATERAL

The forms of eligible collateral that may be deposited with CDCC, as prescribed in Rule A-6 Clearing Fund Deposits and Rule A-7 Margin Requirements, is of one or more of the following assets:

1. Cash
2. Debt Securities
3. Valued Securities

CDCC may, from time to time and at its sole discretion, amend the list of eligible collateral.

CDCC may additionally, on an exceptional basis and at its sole discretion, accept other forms of collateral.

CASH

Cash amounts are accepted only in Canadian dollars.

GOVERNMENT SECURITIES AND CANADA MORTGAGE BONDS

~~CDCC accepts Acceptable Treasury Bills and other Government of Canada and United States Government bonds, in addition to the bonds of certain Canadian provinces, as Margin Deposits. For each issue accepted in advance, a concentration limit equal to \$250 million or 10% of the total issue outstanding, whichever is less, is applied. The concentration limit is in effect for all Government Securities and Canada Mortgage Bonds at the Corporation level. Acceptance of the issues is conditional on the availability of a price from a source that CDCC determines to be acceptable and reliable. The Government Securities and Canada Mortgage Bonds accepted as Margin are reviewed by CDCC on a regular basis.~~

DEBT SECURITIES

GENERAL CONSIDERATIONS

Debt Securities which fulfill certain minimum criteria may be deemed as an eligible form of collateral.

Acceptance of a Debt Security is conditional on the availability of a price from a source that CDCC determines to be acceptable and reliable.

CDCC establishes, reviews on a regular basis and publishes the list of eligible Debt Securities on its web site¹.

Irrespective of the fact that a Debt Security fulfils all eligibility criteria, CDCC will not accept as collateral any Debt Security issued or guaranteed by the Clearing Members itself or its affiliates.

TYPES OF DEBT SECURITIES

The Debt Security must be a debt instrument having a fixed and an unconditional principal amount.

The coupon must be one of the following: a zero coupon or a fixed rate coupon.

Furthermore, real return bonds and floating rate notes can be eligible for specific issuer as determined by CDCC on its list of eligible Debt Securities published on its web site¹.

The Debt Security must not have an embedded option or carry a right of conversion into equity securities, with the exception being non-financial calls (i.e. 'Canada call').

TYPES OF ISSUERS

The eligible Debt Securities must be issued or guaranteed by the Government of Canada, by a provincial government or by the United States [U.S.] Government.

ELIGIBLE DEBT SECURITIES BY ISSUER

Debt Securities issued by the Government of Canada:

¹ This list is published and updated regularly on the CDCC's website at www.cdcc.ca/ecFiles_en.

- Treasury bills, bullet bonds, floating rate notes and real return bonds.
- This excludes stripped coupons and residuals securities.
- Canada Savings Bonds are also excluded.

Debt Securities guaranteed by the Government of Canada:

- Treasury bills, bullet bonds and floating rate notes issued by Canada Housing Trust.
- This excludes stripped coupons and residuals securities.

Debt Securities issued by a provincial government:

- Treasury bills and bullet bonds issued by the governments of **Alberta**, British Columbia, **Manitoba**, Ontario and Quebec.
- This excludes floating rate notes, stripped coupons and residuals securities.

Debt Securities guaranteed by a provincial government:

- Bullet bonds issued by **Financement Quebec, Hydro Quebec and Ontario Electricity Financial Corporation**.
- This excludes floating rate notes, stripped coupons and residuals.

Debt Securities issued by the U.S. Government:

- Treasury bills, notes, bonds, and Treasury inflation-protected securities [TIPS].
- This excludes floating rate notes, stripped coupons and residuals securities.

SETTLEMENT PROCEDURES

Debt Securities must be transferable in book-entry using CDSX of CDS Clearing and Depository Services Inc.

CURRENCY OF DENOMINATION

Debt Securities must be denominated in Canadian dollars with the exception of Debt Securities issued by the U.S. Government in U.S. dollars.

~~VALUED SECURITIES~~

~~CDCC accepts Valued Securities listed on any duly recognized Canadian Exchange against their total Margin requirements. These Securities should respect the criteria set forth in Section A-709 of CDCC's Rules.~~

VALUED SECURITIES

GENERAL CONSIDERATIONS

CDCC accepts Valued Securities trading on the Toronto Stock Exchange or the TSX Venture Exchange.

Irrespective of the fact that a Valued Security fulfils all eligibility criteria, CDCC will not accept as collateral any Valued Security issued or guaranteed by the Clearing Members itself or its affiliates.

A value will be recognized only for Valued Securities with a closing price greater than \$10.

No value will be recognized for Valued Securities if there was no trading in such Valued Security on such Business Day.

SETTLEMENT PROCEDURES

Valued Securities must be transferable in book-entry form using CDSX of CDS Clearing and Depository Services Inc.

CURRENCY OF DENOMINATION

Valued Securities must be denominated in Canadian dollars.

RISK CONTROL MEASURES

CDCC collateral management framework takes a conservative approach to manage the forms of eligible collateral accepted. The framework includes risk limits and calculation of haircuts that apply to the different forms of eligible collateral.

RISK LIMITS

LIMITS AT THE CLEARING MEMBER LEVEL

For each acceptable Government Debt Security, excluding Treasury bills, a concentration limit equal to \$250 million or 10% of the total issue outstanding, whichever is less, is applied ~~at the Corporation level~~ to each Clearing Member.

Valued Securities issued or guaranteed by the Clearing Member or its affiliates are not eligible.

Valued Securities issued by the TMX Group are not eligible.

Limit on the Clearing Fund

For each Clearing Member, for all of its accounts combined, 100% of the Clearing Fund requirements must be covered by Cash, acceptable Treasury bills issued by the Government of Canada or any combination thereof after the application of haircuts.

Limits on the Margin Fund²

For each Clearing Member, for all of its accounts combined, at least ~~2/3~~ 25% of the Margin Fund² requirements must be covered by Cash, acceptable Treasury bills and bonds issued or guaranteed by the Government of Canada or any combination thereof valued after the application of haircuts.

For each Clearing Member, for all of its accounts combined, no more than 40% of the Margin Fund requirements may be covered by Debt Securities issued by the United States of America Federal Government after the application of haircuts.

For each Clearing Member, for all of its accounts combined, no more than 40% of the Margin Fund² requirements may be covered by provincial issued or guaranteed Debt Securities after the application of haircuts.

For each Clearing Member, for all of its accounts combined, no more than 20% of the Margin Fund² requirements may be covered by Debt Securities issued or guaranteed by any one province after the application of haircuts.

For each Clearing Member, for all of its accounts combined, no more than 15% of the Margin Fund² requirements may be covered by Valued Securities after the application of haircuts.

For each Clearing Member, for all of its accounts combined, no more than ~~10%~~ 5% of the Margin Fund² requirements may be covered by any one Valued Security after the application of haircuts.

LIMITS AT CDCC LEVEL

For each acceptable Valued Security, a concentration limit of 5% on the free float applies at CDCC level.

HAIRCUTS

CALCULATING THE HAIRCUTS FOR GOVERNMENT SECURITIES AND CANADA MORTGAGE BONDS

HAIRCUTS FOR GOVERNMENT SECURITIES

The Haircuts are calculated based on the following methodology and assumptions:

² Within the risk limits framework, the Margin Fund includes the Difference Fund.

- Valuation of the market, credit, liquidity and foreign exchange risks based on historical daily returns;
- Confidence interval over 99% obtained by using 3 standard deviations, and the assumption that the bond can be liquidated at a reasonable price in N days. (N will be determined according to the type of products and prevailing market conditions);
- Liquidity risk valued according to the bid-ask spread of the issues (if this spread is unavailable, the liquidation window will be expanded and will depend on market conditions); and
- Bonds of the same issuer and comparable maturities.

Once the quantitative analysis is performed, CDCC reserves the right to increase the Haircuts based on qualitative criteria, such as:

- Comparative analysis of CDCC's Haircuts in relation to the Haircuts of the Bank of Canada;
- Comparative analysis of CDCC's Haircuts in relation to the Haircuts of other clearing houses;
- The congruence of the different Haircuts to the credit rating spreads of the different issuers;
- Any other factor considered relevant.

HAIRCUTS FOR VALUED SECURITIES

A Haircut of 50% is applied to all Valued Securities pledged against the total Margin required against all accounts combined.

HAIRCUT POLICY

The Haircuts are reviewed at least semi-annually and may be reviewed on an ad hoc basis if any event occurs. The Clearing Members are informed of these reviews by written notice and the Haircuts related to Government Securities ~~and Canada Mortgage Bonds~~ are also published on CDCC's website with their effective dates.