



## NOTICE TO MEMBERS

No. 2015 – 102

August 21, 2015

### **SELF-CERTIFICATION**

#### **AMENDMENTS TO RULE B-3 OF THE RULES OF CDCC TO INTRODUCE ACCELERATION OF EXPIRY**

On May 5, 2015, the Board of Directors of the Canadian Derivatives Clearing Corporation (CDCC) approved amendments to the Rules of CDCC. CDCC wishes to inform the Clearing Members that these amendments have been self-certified pursuant to the self-certification process set forth in the *Derivatives Act* (C.Q.L.R., 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 is to accelerate the Expiration Process when a Corporate Action causes a cash underlying for delivery.

You will find attached hereto the amendments set to come into force and to be incorporated into the version of the Rules of CDCC that will be made available on the CDCC website at [www.cdcc.ca](http://www.cdcc.ca) as of August 21, 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](mailto:cdcc-ops@cdcc.ca).

Glenn Goucher  
President and Chief Clearing Officer

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**CANADIAN DERIVATIVES CLEARING CORPORATION**

**RULES**

**VERSION OF ~~MARCH 13~~, 2015**

## **RULE B-3 TENDER AND ASSIGNMENT OF EXERCISE NOTICES**

### **Section B-301 Exercise of Options**

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

**(1) American Options:**

- (a) on the Expiration Date in accordance with Rule B-307 hereof; or
- (b) 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.

**(2) European Options:**

- (a) on the Expiration Date in accordance with Rule B-307 hereof.

Only the Clearing Member who holds the relevant open position may tender an Exercise Notice on that position.

### **Section B-302 Tender of Exercise Notices**

- (1) Every Exercise Notice must refer to a full Option and no Option is exercisable in part.
- (2) Every tender of an Exercise Notice in accordance with Subsection B-301(1) shall be irrevocable except that where an Exercise Notice is tendered in error, it may be cancelled by the Clearing Member until the Close of Business on the Business Day when the erroneous tender was made.
- (3) Every tender of an Exercise Notice in accordance with Subsection B-301(2) shall be irrevocable.
- (4) Exercise Notices may be tendered in respect of Opening Purchase Transactions which have not yet been accepted by the Corporation, and shall be assigned by the Corporation at the same time and in the same manner as Exercise Notices filed on the same Business Day in respect of issued Options, provided that any such Exercise Notice shall be deemed null and void and of no force or effect if the Opening Purchase Transaction in respect of which it was tendered is not accepted by the Corporation on the earlier of the Expiration Date or the Business Day immediately following the date on which such Exercise Notice was filed.

### **Section B-303 Restrictions on the Tender of Exercise Notices**

Whenever the Corporation or an Exchange on which a member of the Corporation is member, acting pursuant to its rules, imposes a restriction on the exercise of one or more series of American Options on the grounds that such restriction is deemed advisable in the interests of maintaining a fair and orderly market in Options or in the Underlying Interest or is otherwise in the interest of the market in general or for the protection of investors, Options of such Series of Options shall not be exercisable by any Clearing Member except in accordance with the terms of such restriction. Notwithstanding the foregoing, no such restriction on exercise shall remain in effect with respect with any series of Options

on the Expiration Date for such series of Option or, in the case of American Options, during the ten days immediately prior to the Expiration Date of such series of Options.

#### **Section B-304 Acceptance of Exercise Notices**

An Exercise Notice properly tendered to the Corporation in accordance with Paragraph B-301(1)(b) or deemed to have been properly tendered in accordance with Section B-307 shall normally and routinely be accepted by the Corporation on the day of tender, except when the Corporation determines that to do so may not be in the interest of the Corporation, the public, or to the integrity of the market. The Corporation shall not be under any obligation to verify that an Exercise Notice received from a Clearing Member is or is deemed to be properly tendered.

#### **Section B-305 Random Assignment of Exercise Notices**

- (1) Exercise Notices accepted by the Corporation shall be assigned, in accordance with the Corporation's procedures of random selection, to accounts with open Short Positions in the Series of Options involved. The Corporation shall treat the accounts of all Clearing Members equally, provided, however, that an Exercise Notice for more than 10 Options will be randomly assigned to accounts in blocks not exceeding 10 Options, except on the Expiration Date when an Exercise Notice may be randomly assigned in total.
- (2) Subject to Subsection B-309(2) Assignment of Exercise Notices shall be made at or before 8 a.m. on the Business Day next following the day on which the Exercise Notice was tendered in accordance with Paragraph B-301(1)(b) or was deemed to have been tendered in accordance with Section B-307.
- (3) If an Exercise Notice is tendered in accordance with Paragraph B-301(1)(b), the assignment of such Exercise Notice shall be deemed tendered as of the day on which the Exercise Notice was tendered. If an Exercise Notice is tendered in accordance with Paragraph B-301(1)(a), the assignment of such Exercise Notice shall be deemed tendered as of the Expiration Date.
- (4) An Exercise Notice shall not be assigned to any Clearing Member which has been suspended for default or insolvency. An Exercise Notice assigned to a Clearing Member which is subsequently so suspended shall be withdrawn and thereupon assigned to another Clearing Member in accordance with this Section.

#### **Section B-306 Reporting of Exercises and Assignments**

A Clearing Member submitting an Exercise Notice and a Clearing Member to whom an Exercise Notice is assigned shall be notified of the receipt and assignment of such Exercise Notice in:

- (a) reports ("Options Exercised and Assigned Report" and "Options Unsettled Delivery Report") issued on the following Business Day; or
- (b) a report ("Expiry Report") issued for expiring Series of Options only on Expiration Date.

### **Section B-307 Expiration Date Exercise Procedure**

The following rules shall apply to the exercise of an Option on its Expiration Date:

- (a) At or before 7:15 p.m. on each Expiration Date, the Corporation shall make available to each Clearing Member an Expiry Response Screen listing, by account, each expiring Option in each of the Clearing Member's accounts with the Corporation. The Expiry Response Screen shall reflect the closing price (as herein defined) of the Underlying Interest for each Series of Options listed therein and shall include such further information as the Corporation may deem appropriate.
- (b)
  - (i) Each Clearing Member shall be required to access the Expiry Response Screen by electronic means. Each Clearing Member may notify the Corporation of the number of Options of each series, if any, to be exercised for each account. If no Options of a particular series are to be exercised for a particular account, the Clearing Member must notify the Corporation to this effect.
  - (ii) Each Clearing Member shall make a Confirmation Transmission in the form prescribed no later than 10:45 p.m. on the Expiration Date. Instructions to exercise Options transmitted to the Corporation shall be irrevocable and may not thereafter be modified.
- (c) It shall be the duty of each Clearing Member to review the Expiry Response Screen against the Clearing Member's own position records and to verify the accuracy of the closing prices reflected on such Expiry Response Screen. If a Clearing Member discovers any error or omission on an Expiry Response Screen, the Clearing Member shall immediately notify the Corporation thereof and co-operate with the Corporation in reconciling any discrepancies. If a Clearing Member's position records reflect expiring Options not listed in its Expiry Response Screen, and the Clearing Member and the Corporation are unable to reconcile their respective position records, the Clearing Member may exercise any Option not listed in its Expiry Response Screen (to the extent that such Options are subsequently determined to have existed in the Clearing Member's accounts) by input to the Expiry Response Screen, together with appropriate exercise instructions, or by tendering Exercise Notices with respect to such Options in accordance with Subsection (d) hereafter.
- (d) If, after the Clearing Member has made a Confirmation Transmission but prior to the Expiration Time, a Clearing Member desires to exercise Options expiring on such Expiration Date in addition to those which the Clearing Member has previously instructed the Corporation to exercise, the Clearing Member may do so by tendering a written Exercise Notice to the Corporation, prior to the Expiration Time, using such facilities as the Corporation may designate from time to time.
- (e) Each Clearing Member shall be deemed to have properly and irrevocably tendered to the Corporation, immediately prior to the Expiration Time on such Expiration Date, an Exercise Notice with respect to:
  - (i) each Option listed on the Clearing Member's Expiry Response Screen which the Clearing Member has instructed the Corporation to exercise in accordance with Subsections (b), (c) or (d) of this Section B-307; and

- (ii) every Option of each series listed in the Clearing Member's Expiry Response Screen which is of a Class of Options subject to automatic exercise and which has an exercise price below (in the case of a call) or above (in the case of a put) the closing price of the Underlying Interest by such amounts as may be specified by the Corporation from time to time, unless the Clearing Member shall duly instruct the Corporation in accordance with Subsection (b) to exercise none or fewer than all of the Options of such series carried in such account. If the Clearing Member desires that such Option not be exercised, it shall be the responsibility of the Clearing Member to give appropriate instructions to the Corporation in accordance with Subsection (b).

#### INTERPRETATION AND POLICIES:

The Predetermined Limits relevant to Paragraph B-307 (e) (ii) are as follows:

Equity, Silver, Bond and Index Participation Unit Options	-	\$0.01 or more in-the-money for Client Accounts
		\$0.01 or more in-the-money for Firm and Market Maker Accounts
Index, Gold and Futures Options	-	No limits. All in-the-money Long Positions will be automatically exercised.

- (f) Every Clearing Member shall ensure that an Authorized Representative is available by telephone to the Corporation between the hours stipulated by the Corporation on each Expiration Date.
- (g) The Corporation shall have no liability to any Clearing Member in respect of any claims, costs, losses, damages or expenses resulting from the exercise or non-exercise of any Option due to any error or omission (whether relating to the inclusion of Options, the determination of closing prices, the making of computations or otherwise) on any Expiry Response Screen whether or not the Clearing Member reviewed such Expiry Response Screen. Any Clearing Member who fails to comply with Paragraphs (b) (i) and (ii) and Subsection (f) shall indemnify and hold the Corporation harmless from any costs, losses, expenses or claims which may arise, directly or indirectly, from the Clearing Member's failure to comply with these provisions.
- (h) On any Expiration Date, the Corporation may in its discretion extend any or all of the times prescribed in Subsections (a) to (f) provided that in no event, except pursuant to Section A-208 of these Rules, shall
  - (i) the deadline for the Confirmation Transmission to the Corporation be extended beyond the Expiration Time,
  - (ii) the time of the availability of any Expiry Response Screen be extended to a time less than three hours before the Expiration Time.

- (i) The untimely transmission of the Confirmation Transmission by a Clearing Member shall be deemed a violation of the Rules and shall cause the Clearing Member to be deemed a Non-Conforming Member subject to disciplinary action pursuant to Rule A-4 and Rule A-5, unless the Clearing Member was prevented by unusual or unforeseen conditions or events (including, but not limited to fire, strike, power failure, extraordinary weather conditions, accident, computer malfunction, acts of public authorities and business or banking moratoriums) from returning such report to the Corporation on a timely basis.
- (j) The tendering of an Exercise Notice by a Clearing Member pursuant to Subsection (d) after the time established for the Confirmation Transmission shall be deemed a violation of the Rules and shall cause the Clearing Member to be deemed a Non-Conforming Member, subject to disciplinary action pursuant to Rule A-4 and Rule A-5 unless the Exercise Notice was tendered for the account of a client of the Clearing Member, and
  - (i) the Clearing Member was prevented from giving the exercise instruction contained therein to the Corporation on a timely basis by unusual or unforeseen condition or events of the type described in Subsection (i) affecting the Clearing Member's ability to communicate such instructions to the Corporation or to receive or process such instructions from clients, or
  - (ii) in the case of exercise instructions given for the account of clients other than Market Makers or other broker-dealers submitting exercise instructions for their own accounts, the Clearing Member was satisfied that the client was unable, due to exceptional circumstances, to communicate such instructions on a timely basis.
- (k) Notwithstanding that a Confirmation Transmission shall be deemed to have been made or an Exercise Notice shall be deemed to have been tendered in violation of the Rules pursuant to Subsection (i) or (j), all exercise instructions properly given therein shall be valid and effective provided that such Confirmation Transmission shall be made or such Exercise Notice is tendered prior to the Expiration Time. If a Clearing Member makes a Confirmation Transmission after the time required for making such transmission, or files an Exercise Notice pursuant to Subsection (d) after making the Confirmation Transmission, the Clearing Member shall be obligated to advise the Corporation in writing of the specific reasons therefore within two Business Days thereafter.
- (l) The term “closing price”, as used with respect to any Underlying Interest in this Section B-307, means the price of the Underlying Interest at or about the close of trading on the Expiration Date as reported to the Corporation by the Primary Exchange. If no trading took place on the Primary Exchange on such Business Day, then the price for such Security at or about the close of trading as reported to the Corporation by the other Exchange will be used.

Notwithstanding the foregoing, if an Underlying Interest was not traded on the Expiration Date or circumstances indicate that there may be other uncertainty regarding the Underlying Interest, the Corporation may determine not to fix a closing price for that Underlying Interest. In the event of such a determination, Expiry Response Screens will not include a daily closing price for that Underlying Interest, and Clearing Members may exercise Options for the Underlying Interest only by giving affirmative exercise instructions in accordance with Subsection (b) or (e).

### Section B-308 Assignment of Exercise Notices to Clients

- (1) Assignment to an account other than that indicated on a report (“Options Exercised and Assigned Report”) is not permitted.
- (2) Each Clearing Member shall establish fixed procedures for the allocation of Exercise Notices assigned to it in respect of a Short Position in the Clearing Member's Client Account. The allocation shall be on a “first in, first out” basis, on a basis of random selection, or another allocation method that is fair and equitable to the Clearing Member's clients and consistent with the regulations, rules and policies of each Exchange on which the Option is traded, if applicable. Such allocation procedures and any changes thereto shall be reported to the Corporation on request.
- (3) No Clearing Member shall permit, unless there is no alternative, the allocation of an exercise against a Short Position that was opened on the day of such allocation.

### Section B-309 Reassignment

- (1) With the exception of an Expiration Date, Clearing Members have until 1.5 hours prior to the Close of Business on the Business Day following the date on which an assignment of an Exercise Notice is effective pursuant to Subsection B-305(3) to notify the Corporation of any condition which may make such assignment invalid.
- (2) The Corporation may reassign Exercise Notices when it considers it necessary or advisable to do so until one-half hour prior to the Close of Business on the Business Day following the date on which such Exercise Notice was first assigned.

### Section B-310 Acceleration of Expiration Date

When a Security Option contract, where the Underlying Interest is an equity stock, is adjusted pursuant to Rule A-9 – Adjustment In Contract Terms, to require the delivery upon exercise of a fixed amount of cash, the Expiration Date of the Option contract will ordinarily be accelerated to fall on or shortly after the date on which the conversion of the underlying security to a right to receive Cash occurs.

The Expiration Date of the closest month's Option contracts will remain unchanged. All Options contracts set to expire after this date will be revised to expire on the business days after that of the closest month's Options contracts. OTCI contracts that expire prior to the expiration of the closest month's expiration date will not be revised.

Exercised Options will continue to settle with the delivery delay as defined within the Contract Specification.

The fixed amount of Cash will be delivered according to CDCC's payment process.