



## NOTICE TO MEMBERS

No. 2015 – 148

December 9, 2015

### **REQUEST FOR COMMENTS PROPOSED AMENDMENTS TO THE RISK MANUAL AND TO SECTIONS A-102, A-1A01, A-301, A-303, A-305 OF THE RULES OF THE CANADIAN DERIVATIVES CLEARING CORPORATION**

#### **Summary**

On October 30, 2015, the Board of Directors of Canadian Derivatives Clearing Corporation (CDCC) approved amendments to the Risk Manual and to Sections A-102, A-1A01, A-301, A-303 and A-305 of CDCC's Rules. The purpose of the proposed amendments is to create a new category of Clearing Members referred to as "Centrals" whose principal purpose will be to provide liquidity support to local cooperative credit societies.

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

#### **Process for Changes to the Rules**

CDCC is recognized as a clearing house under Section 12 of the *Derivatives Act* (Québec) by the Autorité des marchés financiers (AMF) and is a recognized clearing agency under Section 21.2 of the *Securities Act* (Ontario) by the Ontario Securities Commission (OSC).

The Board of Directors of CDCC has the power to approve the adoption or amendment of Rules and Operations Manual of CDCC. Amendments are submitted to the AMF in accordance with the self-certification process and to the OSC in accordance with the process provided in its Recognition Order.

---

#### **Canadian Derivatives Clearing Corporation**

The Exchange Tower  
130 King Street West, 5<sup>th</sup> Floor  
Toronto, Ontario  
M5X 1J2  
Tel. : 416-367-2470

800 Victoria Square  
3<sup>rd</sup> Floor  
Montréal, Québec  
H4Z 1A9  
Tel. : 514-871-3545

Comments on the proposed amendments must be submitted within 30 days following the date of publication of the present notice. Please submit your comments to:

*Ms. Marlène Charron-Geadah*  
*Legal Counsel*  
*Canadian Derivatives Clearing Corporation*  
*Tour de la Bourse*  
*P.O. Box 61, 800 Victoria Square*  
*Montréal, Québec H4Z 1A9*  
*E-mail: [legal@m-x.ca](mailto:legal@m-x.ca)*

A copy of these comments must also be forwarded to the AMF and to the OSC to:

*Mrs. Anne-Marie Beaudoin*  
*Corporate Secretary*  
*Autorité des marchés financiers*  
*Tour de la Bourse, P.O. Box 246*  
*800 Victoria Square, 22<sup>nd</sup> Floor*  
*Montréal, Québec H4Z 1G3*  
*E-mail: [consultation-en-cours@lautorite.gc.ca](mailto:consultation-en-cours@lautorite.gc.ca)*

*Manager, Market Regulation*  
*Market Regulation Branch*  
*Ontario Securities Commission*  
*Suite 2200,*  
*20 Queen Street West*  
*Toronto, Ontario, M5H 3S8*  
*Fax: 416-595-8940*  
*email: [marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca)*

For any question or clarification, Clearing Members may contact CDCC's Corporate Operations.

Glenn Goucher  
President and Chief Clearing Officer



**PROPOSED AMENDMENTS TO SECTION A-102, A-1A01, A-301, A-303, A-305  
AND RISK MANUAL  
OF THE CANADIAN DERIVATIVES CLEARING CORPORATION**

**CONTENTS**

SUMMARY	P 2
ANALYSIS	P 2
Background	P 2
Description and Analysis of Impacts	P 2
Proposed Amendments	P 2
Benchmarking	P 3
PRIMARY MOTIVATION	P 3
IMPACTS ON TECHNOLOGICAL SYSTEMS	P 3
OBJECTIVES OF THE PROPOSED AMENDMENTS	P 3
PUBLIC INTEREST	P 3
MARKET IMPACTS	P 3
PROCESS	P 4
EFFECTIVE DATE	P 4
ATTACHED DOCUMENTS	
Appendix 1	P 5
Appendix 2	P 13

## **I. SUMMARY**

CDCC is hereby proposing to create a new category of Clearing Members. The proposed change is in line with CDCC's business initiative to attract a broader range of financial institutions to use CDCC's clearing services.

## **II. ANALYSIS**

### **a. Background**

CDCC membership currently comprises of major Canadian financial institutions. CDCC's eligibility criteria, as described under Section A-1A01 of its Rules, however restrict CDCC members to entities that are either constituted as Banks and to which the Bank Act applies and IIROC members, i.e. Brokers. CDCC wishes to expand its membership to financial institutions whose principal purpose is to provide liquidity support to local cooperative credit societies.

### **b. Description and Analysis of Impacts**

The proposed Rules change aims at supporting the creation of a new category of Clearing Member constituted under Canadian laws generally known as centrals and that act as liquidity providers of cooperative credit societies. The Clearing Members under this new category will be subject to CDCC Rules, *mutatis mutandis*.

Financial institutions covered by this new Clearing Member category are limited in number and are governed by a strong regulatory framework either provincial or federal (or both). While there was a need to adapt the eligibility criteria to those financial institutions that have different legal structures, the same standards of membership and capital adequacy requirements ("CAR"), or at a minimum CAR deemed equivalent to CARs applicable to Bank Clearing Members and Dealer Clearing Members, will apply to the new Clearing Member category.

The proposed Rules change captures the different regulatory frameworks applicable to these entities and incorporates by reference the regulation applicable to those with respect to CAR. Upon admission, CDCC will assess the capital adequacy framework applicable to each entity to conclude on the equivalency of the CAR as compared to CARs applicable to the other Clearing Members. This will ensure that only entities that abide by rigorous CARs and that demonstrate strong financial background can be captured by this change. Finally, the creation of this new category of Clearing Member is reflected through some additions of language under Section A-102 Definitions, Section A-1A01 on Eligibility for Membership, Section A-301 Minimum Capital Requirements, Section A-303- Early Warning and A-305-Filing Procedures.

The creation of this new category of Clearing Member does not otherwise affect Rules applicable to the existing Clearing Members.

### **c. Proposed Amendments**

See Appendix 1 and 2.

#### **d. Benchmarking**

The rules of certain clearing houses offer the possibility for other entities such as cooperative credit institutions and cooperative credit societies or centrals to become clearing members. For instance, both Eurex<sup>1</sup> and LCH Clearnet<sup>2</sup> (Swap Clear and Repo Clear) rules allow for cooperative credit institutions and both clearing agencies include in their membership DekaBank Deutsche Girozentrale<sup>3</sup>, DZ Bank AG<sup>4</sup>, Deutsche Zentral- Genossenschaftsbank Frankfurt am Main and Norddeutsche Landesbank Girozentrale (NORD/LB)<sup>5</sup> which appear to be centrals.

### **III. PRIMARY MOTIVATION**

The proposal is in line with CDCC's business initiative to attract a broader range of financial institutions to make use of CDCC's clearing services. The driving force behind the proposal is to expand and diversify the credit profile of CDCC membership.

### **IV. IMPACTS ON TECHNOLOGICAL SYSTEMS**

The proposed changes should have no impact on the systems of the Bourse or CDCC, their approved participants or Clearing Members or any other market participants.

### **V. OBJECTIVES OF THE PROPOSED MODIFICATIONS**

Allow for new members that are currently excluded from CDCC membership, as a result of their legal structure, to become Clearing Members.

### **VI. PUBLIC INTEREST**

In CDCC's opinion, the proposed amendments are not contrary to public interest.

### **VII. MARKET IMPACTS**

By opening its membership criteria to attract direct Clearing Members that can demonstrate a strong financial background and that are currently major actors in the Canadian market, the proposal will foster long term profitability of CDCC's clearing services. Current Clearing Members and market participants will not be affected by this change as the current rules will not change and the new Clearing Members will be upheld to the same standards.

---

<sup>1</sup> See <https://www.eurexclearing.com/clearing-en/resources/rules-and-regulations/Clearing-Conditions/136778> and [http://www.eurexchange.com/blob/192342/fa96b968332a753c0933233d181f9976/data/eurex\\_gcm\\_list.pdf](http://www.eurexchange.com/blob/192342/fa96b968332a753c0933233d181f9976/data/eurex_gcm_list.pdf)

<sup>2</sup> See <http://www.lchclearnet.com/members-clients/members/current-membership>

<sup>3</sup> Member of SwapClear and RepoClear (LCH) and Eurex.

<sup>4</sup> Member of SwapClear and RepoClear (LCH) and Eurex.

<sup>5</sup> Member of SwapClear (LCH) and Eurex.

## **VIII. PROCESS**

The proposed amendment is submitted for approval by the CDCC Board. After the approval is obtained, the proposed amendment, including this analysis, will be transmitted to the Autorité des marchés financiers in accordance with the self-certification process, and to the Ontario Securities Commission in accordance with the “Rule Change Requiring Approval in Ontario” process. The proposed amendment and analysis will also be submitted for approval to the Bank of Canada in accordance with the Regulatory Oversight Agreement.

## **IX. EFFECTIVE DATE**

The proposed creation of a new category of Financial Institutions Clearing Member should be implemented in early 2016, subject to regulatory approval.

## **X. ATTACHED DOCUMENTS**

Appendix 1: Proposed New Section A-102, A-1A02, A-301, A-303 and A-305 (Blackline and Clean).

Appendix 2: Risk Manual (Blackline and Clean)

## APPENDIX 1

(BLACKLINE)

### SECTION A-102, A-1A01, A-301, A-303, A-305

## PART A – GENERAL

### RULE A-1 DEFINITIONS

#### SECTION A-102 DEFINITIONS

##### “Financial Institution Clearing Member” – means a

Clearing Member that is either

- i) an financial services cooperative regulated pursuant to an Act respecting financial services cooperatives (Québec), or
- ii) a credit union central or a central cooperative credit society, which is incorporated and regulated under the laws of Canada or under the legislature of a province,

one of whose principal purposes is to provide liquidity support to local credit unions or financial services cooperatives.

##### “Regulatory Body”

With reference to a Financial Institution Clearing Member, means the Office of the Superintendent of Financial Institutions, association or other body, organization or agency, whether governmental, professional, self-regulatory or otherwise, having jurisdiction over that Clearing Member or over any part of the business carried on by it.

### RULE A-1A MEMBERSHIP IN THE CORPORATION

#### SECTION A-1A01 – ELIGIBILITY FOR MEMBERSHIP

- a) In order to apply for membership, an applicant must be:
  - i) a member or approved participant in good standing with an exchange recognized in a Canadian province; or
  - ii) a bank or an authorized foreign bank to which the Bank Act (Canada), as amended from time to time, applies.

iii) a Financial Institution that is either  
a. an financial services cooperative regulated pursuant to an Act respecting financial services cooperatives (Québec), or  
b. a credit union central or a central cooperative credit society, which is incorporated and regulated under the laws of Canada or under the legislature of a province,  
one of whose principal purposes is to provide liquidity support to local credit unions or financial services cooperatives.

- b) A Clearing Member that intends to submit Stock Options or Share Futures to the Corporation for clearing must be a full member participant in good standing with CDS.
- c) A Clearing Member that intends to submit bond Options and/or bond Futures to the Corporation for clearing, must be a full member participant in good standing with CDS.
- d) A Clearing Member that intends to submit physically settled OTCI transactions to the Corporation for clearing, must ensure that it and/or its Client is in good standing and remains as such at all times with the appropriate Market Centres and/or Delivery Agents. Furthermore, and where appropriate, the Clearing Member and/or its Client need to ensure access to a transportation system for the physical transport of the Underlying Interest to the appropriate Market Centres and/or Delivery Agents.
- e) A Clearing Member that intends to submit Futures Contracts on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with physical settlement to the Corporation for clearing must ensure that at all times it and/or its client is and remains in good standing with the Registry as this term is defined in Section A-102 of the Rules.
- f) A Clearing Member that intends to submit Fixed Income Transactions to the Corporation for clearing must be a full member participant in good standing with CDS.

The Corporation may in its sole discretion waive the requirements set forth in clauses (b), (c), (d) or (f) if the Clearing Member enters into an agency agreement with a full member participant in good standing with CDS, that meets certain requirements established by the Corporation, which agency agreement shall be in form and substance satisfactory to the Corporation, pursuant to which such entity agrees to act as the Clearing Member's agent for the purpose of fulfilling such Clearing Member's obligations to the Corporation under these Rules and the Application for Membership.



## RULE A-3 CAPITAL REQUIREMENTS

### SECTION A-301 MINIMUM CAPITAL REQUIREMENTS

- 1) Unless a specific temporary exception is made by the Corporation in the case of a particular Clearing Member due to unusual circumstances, a Clearing Member shall not at any time permit its minimum capital to be less than:
  - a) the minimum capital adequacy requirement adopted from time to time by the Investment Industry Regulatory Organization of Canada, for an SRO Clearing Member; or
  - b) the minimum capital adequacy requirement adopted from time to time by the Office of the Superintendent of Financial Institutions, for a Bank Clearing Member; or-
  - c) the minimum capital adequacy requirement adopted from time to time by the Regulatory Body having jurisdiction over the Clearing Member, and that is judged by the Corporation to be comparable to such capital adequacy requirement applicable for a Bank Clearing Member, for a Financial Institution Clearing Member.
- 2) Every Clearing Member shall file with the Corporation, on request, a report covering the computation of the capital requirements.
- 3) A Fixed Income Clearing Member, in spite of Subsection A-301(1), must also meet the following criteria:
  - a) if it submits only Firm Fixed Income Transactions,
    - i) have minimum capital of \$50,000,000 and be a primary dealer for government securities auctions for the Bank of Canada; or
    - ii) have minimum capital of \$100,000,000.
  - b) if it submits both Firm Fixed Income Transactions and Client Fixed Income Transactions, have minimum capital of \$200,000,000.
  - c) for the purpose of this Subsection A-301(3), “capital” means the Clearing Member’s shareholder’s equity as reflected in its most recent financial statement filed with the Investment Industry Regulatory Organization of Canada or with Office of the Superintendent of Financial Institutions or the Regulatory Body having jurisdiction over the Clearing Member, as the case may be, in accordance with Section A-305, which financial statement is updated on a monthly basis or quarterly basis, as applicable. The Corporation may also, in its sole discretion, take into consideration other forms of capital as a substitute for shareholder’s equity, including the subordinated debt of the Clearing Member or an irrevocable parent company guarantee covering the Clearing Member satisfactory to the Corporation.
  - d) for the purpose of this Subsection A-301(3), “Firm Fixed Income Transactions” shall mean all Fixed Income Transactions submitted by a Clearing Member for its own account and for the account of any of its Affiliates, and “Client Fixed Income Transactions” shall mean all Fixed Income Transactions submitted by a Clearing Member for the account of any of its Clients, other than any of its Affiliates.

## SECTION A-303 EARLY WARNING

A Clearing Member shall notify the Corporation immediately if such a Clearing Member has any indication or suspicion that it may not meet the minimum capital adequacy requirements prescribed in Section A-301 or that any calculation of its capital requirement, as determined from time to time by the Corporation, reflects a capital deficiency or early warning situation as provided in this Section A-303.

An SRO Clearing Member shall advise the Corporation immediately if such Clearing Member enters any early warning level (as defined from time to time by the Investment Industry Regulatory Organization of Canada.)

A Bank Clearing Member shall advise the Corporation immediately if such Clearing Member fails to meet the minimum capital adequacy requirements that may be set from time to time by the Office of the Superintendent of Financial Institutions.

A Financial Institution Clearing Member shall advise the Corporation immediately if such Clearing Member fails to meet the minimum capital adequacy requirements that may be set from time to time by the Regulatory Body having jurisdiction over such Clearing Member.

## SECTION A-305 FILING PROCEDURES

1) Each SRO Clearing Member shall deliver to the Corporation one copy of Parts I and II of the Joint Regulatory Financial Questionnaire and Report, together with the certificate of partners or directors, as required by the self-regulatory body of which such SRO Clearing Member is a member, in the form prescribed by such self-regulatory body at the same time such documents are provided to the self-regulatory body.

2) Each Bank Clearing Member shall deliver to the Corporation one copy of the Capital Adequacy Return, as required by the Office of Superintendent of Financial Institutions, in the form prescribed by the Office of Superintendent of Financial Institutions and at the same time such documents are provided to the Office of Superintendent of Financial Institutions, and one copy of its annual financial statements, in the form prescribed by the Office of Superintendent of Financial Institutions and at the same time such documents are provided to the Office of Superintendent of Financial Institutions.

2)3) Each Financial Institution Clearing Member shall deliver to the Corporation one copy of such report as required and in the form prescribed by the Regulatory Body having jurisdiction over such Clearing Member demonstrating the Clearing Member compliance with the capital adequacy requirement applicable to it and one copy of its annual financial statements, in the form prescribed by the Regulatory Body and at the same time such documents are provided to the Regulatory Body.

## **APPENDIX 1 (CLEAN)**

### **PROPOSED SECTIONS A-102, A-1A02, A-301, A-303, A-305**

#### **PART A – GENERAL**

##### **RULE A-1 DEFINITIONS**

##### **SECTION A-102 DEFINITIONS**

**“Financial Institution Clearing Member” – means a**

Clearing Member that is either

- i) an financial services cooperative regulated pursuant to an Act respecting financial services cooperatives (Québec), or
- ii) a credit union central or a cooperative credit society, which is incorporated and regulated under the laws of Canada or under the legislature of a province,

one of whose principal purposes is to provide liquidity support to local credit unions or financial services cooperatives.

**“Regulatory Body”**

With reference to a Financial Institution Clearing Member, means the Office of the Superintendent of Financial Institutions, association or other body, organization or agency, whether governmental, professional, self-regulatory or otherwise, having jurisdiction over that Clearing Member or over any part of the business carried on by it.

##### **RULE A-1A MEMBERSHIP IN THE CORPORATION**

##### **SECTION A-1A01 – ELIGIBILITY FOR MEMBERSHIP**

- a) In order to apply for membership, an applicant must be:
  - i) a member or approved participant in good standing with an exchange recognized in a Canadian province; or
  - ii) a bank or an authorized foreign bank to which the Bank Act (Canada), as amended from time to time, applies.
  - iii) a Financial Institution that is either
    - a. an financial services cooperative regulated pursuant to an Act respecting financial services cooperatives (Québec), or

- b. a credit union central or a cooperative credit society, which is incorporated and regulated under the laws of Canada or under the legislature of a province,  
one of whose principal purposes is to provide liquidity support to local credit unions or financial services cooperatives.
- b) A Clearing Member that intends to submit Stock Options or Share Futures to the Corporation for clearing must be a full member participant in good standing with CDS.
- c) A Clearing Member that intends to submit bond Options and/or bond Futures to the Corporation for clearing, must be a full member participant in good standing with CDS.
- d) A Clearing Member that intends to submit physically settled OTCI transactions to the Corporation for clearing, must ensure that it and/or its Client is in good standing and remains as such at all times with the appropriate Market Centres and/or Delivery Agents. Furthermore, and where appropriate, the Clearing Member and/or its Client need to ensure access to a transportation system for the physical transport of the Underlying Interest to the appropriate Market Centres and/or Delivery Agents.
- e) A Clearing Member that intends to submit Futures Contracts on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with physical settlement to the Corporation for clearing must ensure that at all times it and/or its client is and remains in good standing with the Registry as this term is defined in Section A-102 of the Rules.
- f) A Clearing Member that intends to submit Fixed Income Transactions to the Corporation for clearing must be a full member participant in good standing with CDS.

The Corporation may in its sole discretion waive the requirements set forth in clauses (b), (c), (d) or (f) if the Clearing Member enters into an agency agreement with a full member participant in good standing with CDS, that meets certain requirements established by the Corporation, which agency agreement shall be in form and substance satisfactory to the Corporation, pursuant to which such entity agrees to act as the Clearing Member's agent for the purpose of fulfilling such Clearing Member's obligations to the Corporation under these Rules and the Application for Membership.

## **RULE A-3 CAPITAL REQUIREMENTS**

### **SECTION A-301 MINIMUM CAPITAL REQUIREMENTS**

- 1) Unless a specific temporary exception is made by the Corporation in the case of a particular Clearing Member due to unusual circumstances, a Clearing Member shall not at any time permit its minimum capital to be less than:
  - a) the minimum capital adequacy requirement adopted from time to time by the Investment Industry Regulatory Organization of Canada, for an SRO Clearing Member; or
  - b) the minimum capital adequacy requirement adopted from time to time by the Office of the Superintendent of Financial Institutions, for a Bank Clearing Member; or
  - c) the minimum capital adequacy requirement adopted from time to time by the Regulatory Body having jurisdiction over the Clearing Member, and that is judged by the Corporation to be comparable to such capital adequacy requirement applicable for a Bank Clearing Member, for a Financial Institution Clearing Member.
- 2) Every Clearing Member shall file with the Corporation, on request, a report covering the computation of the capital requirements.
- 3) A Fixed Income Clearing Member, in spite of Subsection A-301(1), must also meet the following criteria:
  - a) if it submits only Firm Fixed Income Transactions,
    - i) have minimum capital of \$50,000,000 and be a primary dealer for government securities auctions for the Bank of Canada; or
    - ii) have minimum capital of \$100,000,000.
  - b) if it submits both Firm Fixed Income Transactions and Client Fixed Income Transactions, have minimum capital of \$200,000,000.
  - c) for the purpose of this Subsection A-301(3), “capital” means the Clearing Member’s shareholder’s equity as reflected in its most recent financial statement filed with the Investment Industry Regulatory Organization of Canada or with Office of the Superintendent of Financial Institutions or the Regulatory Body having jurisdiction over the Clearing Member, as the case may be, in accordance with Section A-305, which financial statement is updated on a monthly basis or quarterly basis, as applicable. The Corporation may also, in its sole discretion, take into consideration other forms of capital as a substitute for shareholder’s equity, including the subordinated debt of the Clearing Member or an irrevocable parent company guarantee covering the Clearing Member satisfactory to the Corporation.
  - d) for the purpose of this Subsection A-301(3), “Firm Fixed Income Transactions” shall mean all Fixed Income Transactions submitted by a Clearing Member for its own account and for the account of any of its Affiliates, and “Client Fixed Income Transactions” shall mean all Fixed Income Transactions submitted by a Clearing Member for the account of any of its Clients, other than any of its Affiliates.

### **SECTION A-303 EARLY WARNING**

A Clearing Member shall notify the Corporation immediately if such a Clearing Member has any indication or suspicion that it may not meet the minimum capital adequacy requirements prescribed in Section A-301 or that any calculation of its capital requirement, as determined from time to time by the Corporation, reflects a capital deficiency or early warning situation as provided in this Section A-303.

An SRO Clearing Member shall advise the Corporation immediately if such Clearing Member enters any early warning level (as defined from time to time by the Investment Industry Regulatory Organization of Canada.)

A Bank Clearing Member shall advise the Corporation immediately if such Clearing Member fails to meet the minimum capital adequacy requirements that may be set from time to time by the Office of the Superintendent of Financial Institutions.

A Financial Institution Clearing Member shall advise the Corporation immediately if such Clearing Member fails to meet the minimum capital adequacy requirements that may be set from time to time by the Regulatory Body having jurisdiction over such Clearing Member.

### **SECTION A-305 FILING PROCEDURES**

- 1) Each SRO Clearing Member shall deliver to the Corporation one copy of Parts I and II of the Joint Regulatory Financial Questionnaire and Report, together with the certificate of partners or directors, as required by the self-regulatory body of which such SRO Clearing Member is a member, in the form prescribed by such self-regulatory body at the same time such documents are provided to the self-regulatory body.
- 2) Each Bank Clearing Member shall deliver to the Corporation one copy of the Capital Adequacy Return, as required by the Office of Superintendent of Financial Institutions, in the form prescribed by the Office of Superintendent of Financial Institutions and at the same time such documents are provided to the Office of Superintendent of Financial Institutions, and one copy of its annual financial statements, in the form prescribed by the Office of Superintendent of Financial Institutions and at the same time such documents are provided to the Office of Superintendent of Financial Institutions.
- 3) Each Financial Institution Clearing Member shall deliver to the Corporation one copy of such report as required and in the form prescribed by the Regulatory Body having jurisdiction over such Clearing Member demonstrating the Clearing Member compliance with the capital adequacy requirement applicable to it and one copy of its annual financial statements, in the form prescribed by the Regulatory Body and at the same time such documents are provided to the Regulatory Body.

## APPENDIX 2: (BLACKLINE)

### RISK MANUAL

(...)

#### DIFFERENCE FUND

(...)

##### **Daily Capital Margin Monitoring:**

The Corporation measures the credit exposure to its Clearing Members on a daily basis through the Daily Capital Margin Monitoring Calls (DCMM). The capital level is derived from regulatory reports received on a monthly basis in a timely manner (and on a quarterly basis if it is a Bank Clearing Member).

As prescribed in Section A-710 of the Rules, the Corporation may call for a contribution in the Difference Fund from Members that are undercapitalized in relation to their respective Initial Margin. The Corporation compares the Clearing Member's capital amount to the Initial Margin<sup>1</sup> on a daily basis and requires, if applicable, that the Clearing Member makes up any difference in the form of acceptable Deposits. Each Clearing Member's capital is analyzed and updated on a monthly basis.

In order to determine the contribution to the Difference Fund of Clearing Members, the Corporation uses the Net Allowable Assets (NAA). The Net Allowable Asset is a more restrictive type of capital, since it is the net result of the financial statement capital less the non allowable assets. Non allowable assets are composed of less liquid assets like capitalized leases, Investments in and Advances to Subsidiaries, etc. For Bank Clearing Members, the Corporation uses the Net Tier 1 capital.

The Corporation has access to the Clearing Member's financial statements from the CIPF (Canadian Investor Protection Fund), ~~and~~ the OSFI (Office of the Superintendent of Financial Institutions Canada) for Bank Clearing Members or a Regulatory Body for Financial Institution Clearing Member.

(...)

---

<sup>1</sup> The Initial Margin used for DCMM calculation does not include the additional margin for Concentration Risk.

## APPENDIX 2: (CLEAN)

### RISK MANUAL

(...)

#### DIFFERENCE FUND

(...)

##### **Daily Capital Margin Monitoring:**

The Corporation measures the credit exposure to its Clearing Members on a daily basis through the Daily Capital Margin Monitoring Calls (DCMM). The capital level is derived from regulatory reports received on a monthly basis in a timely manner (and on a quarterly basis if it is a Bank Clearing Member).

As prescribed in Section A-710 of the Rules, the Corporation may call for a contribution in the Difference Fund from Members that are undercapitalized in relation to their respective Initial Margin. The Corporation compares the Clearing Member's capital amount to the Initial Margin<sup>2</sup> on a daily basis and requires, if applicable, that the Clearing Member makes up any difference in the form of acceptable Deposits. Each Clearing Member's capital is analyzed and updated on a monthly basis.

In order to determine the contribution to the Difference Fund of Clearing Members, the Corporation uses the Net Allowable Assets (NAA). The Net Allowable Asset is a more restrictive type of capital, since it is the net result of the financial statement capital less the non allowable assets. Non allowable assets are composed of less liquid assets like capitalized leases, Investments in and Advances to Subsidiaries, etc. For Bank Clearing Members, the Corporation uses the Net Tier 1 capital.

The Corporation has access to the Clearing Member's financial statements from the CIPF (Canadian Investor Protection Fund), the OSFI (Office of the Superintendent of Financial Institutions Canada) for Bank Clearing Members or a Regulatory Body for Financial Institution Clearing Member.

(...)

---

<sup>1</sup>. The Initial Margin used for DCMM calculation does not include the additional margin for Concentration Risk.