

CDCC

Converge FAQ

Q1 What is Converge?

CDCC introduced its Converge® central counterparty clearing services in 2006 to offer Clearing Members and their clients the benefits of central clearing for equity, Canadian Depository Receipts ("CDR") and Exchange Traded Funds ("ETF") options transactions that originate off-exchange. The result for Clearing Members and their clients is a combined register of their standardized listed options and customized options, extending the margin efficiencies and reduced costs typically offered by exchange-traded contracts.

Q2 Which option terms can be customized in Converge?

- **A2** Converge allows you to customize the following option contract terms:
 - 1. Type of option: Put or Call
 - 2. Maturity date: a Canadian business day up to 5 years from trade date
 - 3. Exercise rule: American or European
 - 4. Exercise price: any in increments of 0.001
 - 5. Settlement type: Cash or Physical
 - 6. Reference settlement price: Open or Close

Q3 Can a Converge option have the same terms as a regular listed option?

A3 No, at least one term has to differ.

Q4 What are the eligibility criteria for underlying stocks?

- To be an eligible Underlying interest, a stock must meet all of the following criteria:
 - 1. The security is listed on all Canadian Exchanges;
 - 2. The Value of Available Public Float is within the top thirty percentile (30%) of the aggregate Value of Available Public Float listed on all the Canadian Exchanges on the last Business Day of the current quarter; and
 - 3. The daily average North American Volume of the Security for the last twenty (20) Business Days of the Current quarter is within the top thirty percentile (30%) of the North American Volume of the Securities listed on all the Canadian Exchanges on the last Business Day of the current quarter.

Q5 What are the eligibility criteria for underlying ETFs?

- A5 To be an eligible Underlying interest, an ETF must meet all of the following criteria:
 - 1. The ETF is listed on all Canadian Exchanges;
 - 2. The Value of Available Public Float is equal to or greater the CAN\$20 million;
 - 3. The Securities issued may be created or repurchased upon request every Business Day by the ETF for an amount based on the net asset value; and
 - 4. The Corporation deems the documentation satisfactory.

Q6 What are the eligibility criteria for underlying CDR?

- A6 To be an eligible Underlying Interest, a stock must meet all of the following criteria:
 - 1. The Security is listed on TSX or TSX Venture Exchange;
 - 2. The Value of Available Public Float of the Underlying Interest is within the top thirty percentile (30%) of the aggregate Value of Available Public Float listed on all the Canadian Exchanges on the last Business Day of the current quarter; and
 - 3. The daily average North American Volume of the underlying foreign share for the last twenty (20) Business Days of the Current quarter is within the top thirty percentile (30%) of the North American Volume of the Securities listed on all the Canadian Exchanges on the last Business Day of the current quarter.

Q7 Where can I find the list of eligible underlyings?

The current list of eligible stocks, CDRs and ETFs can be found here.

Q8 Is it possible to add new underlying stocks or ETFs to the existing eligibility list?

While we update the list quarterly, some stocks or ETFs may meet the eligibility criteria between these scheduled updates.

They can be added by contacting CDCC at: cdcc-cs@tmx.com or cdcc-cs@tmx.com

Q9 Can Converge and MX listed options be cross-margined?

Yes, they can be cross-margined when held in the same account.

Q10 Are position limits applicable to Converge options?

A10 Converge options are not subject to Montréal Exchange position limits.

Q11 How are Converge options traded?

A11 Converge trades are negotiated bilaterally and are novated to CDCC upon submission for clearing, provided they meet the eligibility criteria.

Q12 How are Converge options priced?

A12 CDCC generates theoretical prices using implied volatilities for underlying with listed options, and historical volatilities for underlying with no listed options.

Q13 What do I need to trade Converge options?

A13 Trading Converge options require either CDCC Clearing Member status or a carrying broker relationship with a CDCC Clearing Member. A CDCC Clearing Member must report and book trades through SOLA®, CDCC's clearing platform.

Q14 Is an International Swaps and Derivatives Association (ISDA) agreement required to trade Converge options?

A14 An ISDA agreement is not required to trade Converge options.

Q15 Where are Converge options cleared?

A15 Converge options are cleared at CDCC as are regular listed options.

Q16 Are Converge options trades publicly reported?

A16 Neither the MX nor CDCC reports these trades, ensuring trading anonymity. However, all trades are reported to regulators.



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