

Customized Derivatives Clearing



Converge® provides central counterparty clearing services for transactions that originate off-exchange. It allows market participants to submit their customized derivatives transactions for clearing at the Canadian Derivatives Clearing Corporation (CDCC). **Converge** is currently available to clear customized equity options.

HIGH LEVEL OF CUSTOMIZATION

> Eligible Underlyings

Over 500 names:

- Single-name equities listed on the Toronto Stock Exchange (TSX) and TSX Venture Exchange.
- Exchange-traded funds (ETFs) listed on the TSX.

> Exercise Style

European or American

> Settlement

Cash or physical

> Maturity

Up to 5 years

> Strike Price

No constraints (0.001\$ increments)

BENEFITS OF USING CONVERGE FOR CLEARING CUSTOMIZED TRANSACTIONS

> International Swaps and Derivatives Association (ISDA)

agreement not required as CDCC provides same legal framework as exchange-traded options traded on the Montreal Exchange (MX).

> Multilateral Netting (Customized and Exchange-Traded)

- Positions
- Collateral requirements
- Daily settlement
- Final settlement

> Centralized Business Processes

> Anonymity

> Scalability

> Optimal usage of capital and collateral

> Risk Mutualization

OPTION PRICING

For margin calculation purposes, CDCC computes a daily theoretical price for each customized equity option cleared through **Converge**.

OPTION PRICING MODELS

The option pricing model to use depends on the exercise style of the option:

- > **American-style**
 - Barone-Adesi & Whaley
- > **European-style**
 - Black-Scholes

VOLATILITY

The volatility estimate, used as an input when computing the customized option's price, depends on whether or not the underlying has a listed option at the Montréal Exchange (MX):

- > **Underlying has a listed option at MX**
 - Implied volatility derived from listed option prices
- > **Underlying does not have a listed option at MX**
 - Historical volatility of underlying (annual)

MINIMUM SIZE

Instruments	Minimum Size
Single-Name Equity Options	100 contracts
ETF Options	100 contracts

FEE STRUCTURE

Instruments	Clearing Member Cost (By contract)	Client Cost (By contract)	CAP AT 10,000 CONTRACTS*	
			Maximum Clearing Member Cost (Total)	Maximum Client Cost (Total)
All underlyings (Single-Name Equity Options and ETF Options)	\$0.30	\$0.70	\$3,000	\$7,000

* Exercise fees are also capped at 10,000 contracts