

June 2024

CDCC

Secured General Collateral (SGC) Notes



What are Secured General Collateral Notes (“SGC Notes”)?

Designed as an alternative to Bankers’ Acceptances (BAs)

The cessation of Canadian Dollar Offer Rate (“CDOR”) on June 28th 2024 represents an important change to Canada’s capital markets and the transition to alternative funding and investment options requires careful planning and execution.

SGC Notes¹ are backed by the credit of the banks/dealers (“SGC Clearing Member”) underwriting them and will provide an alternative for short-term investment and funding needs. Each SGC Notes will have its own unique and tradeable ISIN and are expected to trade on the main Canadian fixed income trading platforms. SGC Notes represent an attractive investment option relative to available alternatives.

Easy access for investors

SGC Notes investors do not need to be members of CDCC, the Canadian Collateral Management Service (CCMS)² or be a Canadian Depository for Securities (CDS) direct participant. Instead, SGC Notes are directly distributed on the primary market (as an eligible CDSX instrument) to Accredited Investors by underwriters as a cash instrument in a similar way as for BAs.

As such, they offer a viable alternative for investors who are not eligible for reverse repo transactions. In addition, the standardization of the SGC Notes also makes them suitable for second market trading for investors. By holding SGC Notes, investors can benefit from innovative features, without any additional operational complexity.

Discount money market instrument

SGC Notes are discount instruments, i.e. quoted on a discounted basis to the face value of the security. Noteholders will receive the face value of their SGC Notes upon maturity, regardless of the performance of the SGC Securities.

The SGC Notes will be issued in book-entry form at the CDS and will be available in minimum denominations of \$100,000 and in integral multiples of \$100,000. The SGC Notes will be offered on any Business Day with different terms to maturity, for terms of one, two, three, six or twelve month(s).

Secured by a standardized basket and High-Quality Liquid Assets securities³

SGC Notes are secured by high-quality debt securities, denominated in Canadian dollars. More specifically, SGC Securities Basket comprise of Bank of Canada SLF-eligible securities^{4,5} (including GoC, provies, public sector, NHA-MBS, municipal, corporates and covered bonds) and Non SLF eligible securities (corporate debt securities (BBB+, BBB, BBB- or equivalent) and Lynx participants’ securities).

All SGC Securities are investment grade quality (i.e. with a rating higher than BBB- or equivalent) and each SGC Clearing Member’s/Underwriter’s assets are combined in their own single pool of assets to secure the SGC Notes.

Highly rated by a credit rating agency

Rated by Moody’s, the SGC Notes’ rating (target P-1 for each series) is dependent on the SGC Clearing Member/Underwriter’s counterparty credit rating (and not the SGC Securities Basket). The targeted rating is also designed to meet investment policy minimum criteria.

¹ We refer you to the Offering Memorandum, Program documents and [Notice to members 126-23](#).

² <https://www.cds.ca/solutions/cds-key-initiatives/canadian-collateral-management-service>

³ Concentration limits apply. Refer to the CDCC website: <https://www.cdcc.ca/en/sgc-notes>

⁴ <https://www.bankofcanada.ca/markets/market-operations-liquidity-provision/market-operations-programs-and-facilities/collateral-policies/>

⁵ SGC Securities include all SLF Securities other than asset-backed securities, asset-backed commercial paper and non-mortgage loan portfolio.

Distinct from standard ABCP products in Canada

Unlike ABCP, SGC noteholders are not directly exposed to the assets securing the SGC Notes. SGC noteholder are instead exposed to SGC Clearing Members'/Underwriters' liquidity/credit risk via the SGC repo transaction supporting the SGC Notes⁶.

Consequently, and contrary to standard ABCP, no additional backup source of liquidity is needed as it is directly managed under the SGC repo which funds the SGC Notes payment on maturity.

Actively risk managed by CDCC⁷

SGC Notes are secured by a SGC Securities Basket which is transparent to SGC noteholders and managed by CDCC through its active risk management process, including daily mark-to-market⁸, haircuts and substitutions.

CDCC also manages the counterparty risk between the SGC Clearing Member and the SGC Notes Trust (the Trust as issuer of the SGC Notes) which ultimately adds additional protection for Noteholders by keeping the basket fully secured (stabilization mechanism throughout the new Canadian Collateral Management Service (CCMS⁹)).

Transparent for investors

Investors can monitor at all times the specific SGC Securities' Basket (aggregated at the issuer level) for each subscribing bank/dealer including any daily eligible substitutions through TMX Datalinx service¹⁰.

Program Parties

- **Canadian Derivatives Clearing Corporation ("CDCC"):** Promoter, Administrative Agent, Custodian, Paying Agent (for the SGC Notes), Central Counterparty Clearing (CCP) for the SGC repo transaction supporting the SGC Notes
- **SGC Clearing Members:** Underwriters of SGC Notes and CDCC Fixed Income Transaction participant meeting additional criteria under the SGC Notes program
- **Secured General Collateral Notes Trust ("SGC Notes Trust"):** Issuer of SGC Notes
- **Computershare Trust Company of Canada:** Issuer Trustee
- **TSX Trust Company:** Indenture Trustee
- **Moody's:** Rating Agency - target P-1 for each SGC Notes Series (i.e by Underwriter or series)
- **Canadian Collateral Management Service ("CCMS"):** Collateral management infrastructure for the SGC Securities Basket. CDCC and SGC Clearing Members are direct participants, not SGC noteholders

⁶ The terms of the SGC Notes matches those of the supporting SGC Repo (i.e same amount, rate, start/end date).

⁷ Under CDCC rules for Fixed Income Transactions for the supporting SGC repo.

⁸ Prices and other referential data are provided by CanDeal DNA: <https://www.candeal.com/en/data-analytics>

⁹ <https://www.cds.ca/solutions/cds-key-initiatives/canadian-collateral-management-service>

¹⁰ TMX Datalinx is the Information Services division of TMX Group Limited. TMX Datalinx provides a broad range of real-time, historical, and other data products and services to customers across North America and around the globe. Data on the SGC Securities Baskets are available here: <https://www.tmxwebstore.com/products/sgc-notes>

For more information

cdcc.ca

Please note that the information presented above is not an exhaustive analysis, but rather a summary overview of the SGC Program. For additional details or other related information, we refer you to the following documentation available on the CDCC website: <https://www.cdcc.ca/en/sgc-notes>

- SGC Notes Program - Offering Memorandum and Program documents
- CDCC Rules;
- CDCC Operations Manual;
- Notices to members 126-23

Unless otherwise defined in this document, any defined term used in this document will have the meaning described in the CDCC Rules and Operations Manual or SGC Notes Program - Offering Memorandum and Program documents.

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Information contained may not be complete and may have to be amended. No final investment decision by any prospective investor should be taken prior to reading the final SGC Program documents and CDCC Rules and Manuals.

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