



**CANADIAN DERIVATIVES CLEARING CORPORATION**

**RULES**

**MARCH 19, 2021**

## **PART A – GENERAL**

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

#### **Section A-101 SCOPE OF APPLICATION**

Unless the context otherwise requires or unless different meanings are specifically defined, for all purposes of these Rules the capitalized terms used herein shall have the meanings given them in Section A-102.

#### **Section A-102 DEFINITIONS**

**“Acceptable Instrument Types”** or **“Acceptable OTCI”** – means Over-the-Counter Instruments which are determined by the Corporation as acceptable for clearing with the Corporation.

**“Acceptable Marketplace”** – means a bilateral or multilateral marketplace, other than an Exchange, where buyers and sellers conclude transactions in Acceptable Instrument Types including bilateral trades between two Fixed Income Clearing Members and which meets any of the following requirements (i) in the case of a marketplace which is an alternative trading system (**“ATS”**), it has qualified as such and complies with the applicable requirements of National Instrument 21-101 – *Marketplace Operations* (**“21-101”**) and National Instrument 23-101 – *Trading Rules* (**“23-101”**) as determined by the Corporation, and (ii) in the case of an inter-dealer bond broker (**“IDBB”**), it has qualified as such and complies with applicable IIROC Rules including IIROC Rule 2800 and applicable requirements of 21-101 and 23-101 as determined by the Corporation, and (iii) in the case of bilateral trades between Fixed Income Clearing Members involving an SRO Clearing Member, the SRO Clearing Member complies with applicable requirements of 21-101 and 23-101 as determined by the Corporation.

**“Acceptable Security”** – means a Security determined by the Corporation as acceptable for purposes of clearing Fixed Income Transactions and Futures for which the deliverable security is a fixed income security.

**“Acceptable Treasury Bills”** – means a short-term debt instrument, having a maturity of less than one year, issued by the Government of Canada and sold at a discount.

**“Acceptable Underlying Interest”** – means an Underlying Interest which is determined by the Corporation as acceptable for clearing by the Corporation.

**“Acceptance Criteria”** – means the criteria established by the Corporation for acceptance or rejection of an OTCI in accordance with the provisions of Section D-104.

**“Account Control Agreement”** – means an account control agreement in form acceptable to the Corporation entered into between the Corporation, a Clearing Member and an Approved Custodian.

**“Additional Deposit”** – means the additional amount required of the Clearing Member in addition to the Clearing Fund deposit pursuant to Section A-606.

**“Affiliate”** – means an Entity that controls, is controlled by, or is under common control with the Clearing Member. Control is defined as (a) ownership, control, or holding with power to vote 20% or more of a class of voting securities of the Entity or Clearing Member; or (b) consolidation of the Entity or Clearing Member for financial reporting purposes.

**“Afternoon Net DVP Settlement Requirement”** – has the meaning attributed thereto in Section D-601.

**“Afternoon Netting Cycle Timeframe”** – has the meaning attributed thereto in Section D-601.

**“American Option”** (or **“American Style Option”**) – means an Option which can be exercised at any time from issuance until its Expiration Date.

**“Amounts Due”** – has the meaning attributed thereto in Subsection A-409(10).

**“Application for Membership”** – means the Application for Membership which, when completed by a Clearing Member candidate and accepted by the Corporation, forms part of the Membership Agreement together with the Rules which are incorporated by reference therein and form a part thereof, as such Application for Membership may from time to time be amended, changed, supplemented or replaced in whole or in part.

**“Approved Custodian”** – means an Approved Securities Intermediary approved by the Corporation to act in such capacity pursuant to Section A-224.

**“Approved Depository”** – means an Approved Securities Intermediary approved by the Corporation to act in such capacity pursuant to Section A-223.

**“Approved Processes”** – means any CDCC function for processing Transactions for clearing by the Corporation. CDCC may make available more than one Approved Process in respect of any clearing service.

**“Approved Securities Intermediary”** – means a financial institution approved by the Corporation in accordance with the criteria set forth in Section A-222 and, as applicable, Sections A-223 and A-224.

**“Assigned Position”** – means the position of the Clearing Member in any account for which such Clearing Member is the assigned Clearing Member in such account.

**“At-the-Money Option”** – means a call Option or a put Option with an Exercise Price that is equal to the Market Price of the Underlying Interest.

**“Authorized Representative”** – means a person for whom the Clearing Member has filed evidence of authority pursuant to Section A-202.

**“Bank Clearing Member”** – means a Clearing Member that is a bank to which the *Bank Act* (Canada), as amended from time to time, applies.

**“Base Deposit”** – means the minimum Clearing Fund deposit required of each Clearing Member pursuant to Section A-603.

**“Base Initial Margin”** – means a component of the Margin deposit required of each Clearing Member calculated in accordance with the Risk Manual.

**“Board”** – means the Board of Directors of the Corporation.

**“Business Day”** – means any day on which the Corporation is open for business.

**“Business Hours”** – means from 2 a.m. (ET) to the Close of Business on any Business Day.

**“By-laws”** – means the By-laws of the Corporation as the same may be amended from time to time.

**“Calculation Agent”** – means the Corporation when calculating certain close-out amounts as provided in Subsection A-409(9).

**“Call Underlying Interest Deposit”** – means the deposit by an Approved Depository acting on behalf of a Clearing Member or a client thereof of the Underlying Interest of a call Option with the Corporation through a Central Securities Depository.

**“Canada Mortgage Bonds (CMB)”** – means bullet maturity bonds that are fixed rate with a semi-annual coupon issued by Canada Housing Trust and guaranteed by Canada Mortgage and Housing Corporation.

**“Capital Adequacy Return (CAR)”** – means the documents specified from time to time by the Office of the Superintendent of Financial Institutions in its guidelines relating to capital adequacy requirements applicable to banks.

**“Cash”** – means money in the lawful currency of Canada.

**“Cash Settlement Amount”** – means the amount determined by the Calculation Agent in accordance with Subsection A-409(6).

**“Cash Settlement Amount Calculation Request”** – has the meaning attributed thereto Subsection A-409(6).

**“Cash Settlement Amount Calculation Request Date”** – has the meaning attributed thereto Subsection A-409(6).

**“Cash Settlement Payment Default”** – has the meaning attributed thereto in Subsection A-409(6).

**“Cash Settlement Payment Request”** – has the meaning attributed thereto in Subsection A-409(6).

**“CDCC Daylight Credit Facility”** – means the daylight credit facility of the Corporation, the amount of which is subject to change from time to time, with prior notice to Clearing Members.

**“CDCC Materials”** – means any material, data and information developed, created or compiled by the Corporation and provided by the Corporation to the Clearing Members in any form, and including the software, trade-marks, logos, domain names, documentation (including the Rules), Approved Processes, technical information, systems (including the clearing systems and electronic transmission systems), hardware and networks, that comprises the CDCS provided by the Corporation to the Clearing Members.

**“CDCS”** – means **“Canadian Derivatives Clearing Service”** and refers to the clearing and settlement system operated by CDCC, which is governed by the Rules.



**“CDS”** – means CDS Clearing and Depository Services Inc., acting as Central Securities Depository in Canada or acting in any other capacity, or any successor thereof.

**“CDS Funds Account”** – means a funds account established by a CDS participant under the CDS Participant Rules.

**“CDS Securities Account”** – means a securities account established by a CDS participant under the CDS Participant Rules.

**“CDS Participant Rules”** – mean the rules and procedures established by CDS that may from time to time be amended, changed, supplemented or replaced in whole or in part.

**“CDSX”** – means the clearing and settlement system comprising the Depository Service and the Settlement Service (each as defined in the CDS Participant Rules) of CDS.

**“Central Securities Depository”** – means any central securities depository acceptable to the Corporation, including CDS.

**“Class Group”** – means all Options and Futures relating to the same Underlying Interest.

**“Class of Futures”** – means all Futures covering the same Underlying Interest.

**“Class of Options”** – means all Options of the same style within the same maturity category on the same Underlying Interest.

**“Clearing Fund”** – means the fund established pursuant to Rule A-6 Clearing Fund Deposits.

**“Clearing Member”** – means an applicant who has been admitted to membership in the Corporation.

**“Client”** – means those customers of a Clearing Member who are not Market Makers or trading on behalf of a broker.

**“Client Account”** – means the account or accounts required to be established for Transactions of the Clearing Members’ Clients pursuant to Sections B-102, B-103, C-102, C-103, D-102 and D-103.

**“Clients Settlement Account”** – means the account established by Section A-403.

**“Close of Business”** – means the time at which the Business Day ends, as specified in the Operations Manual. The time may, at the sole discretion of the Corporation, be modified to address shortened trading days on Exchanges.

**“Closing Buy Transaction”** – means an Exchange Transaction the result of which is to reduce or eliminate a Short Position in the Series of Futures involved in such transaction.

**“Closing Purchase Transaction”** – means an Exchange Transaction the result of which is to reduce or eliminate a Short Position in the Series of Options involved in such transaction.

**“Closing Sell Transaction”** – means an Exchange Transaction the result of which is to reduce or eliminate a Long Position in the Series of Futures involved in such transaction.

**“Closing Writing Transaction”** – means an Exchange Transaction the result of which is to reduce or eliminate a Long Position in the Series of Options involved in such transaction.

**“Commodity”** – means any agricultural product, forest product, product of the sea, mineral, metal, hydrocarbon fuel, natural gas, electric power, currency or precious stone or other gem, and any goods, article, service, right or interest, or class thereof, whether in the original or processed state.

**“Competent Authority”** – has the meaning attributed thereto in Subsection A-409(3).

**“Confirmation Transmission”** – means the electronic transmission made by a Clearing Member to the Corporation confirming that the Expiry Report detailed in Section B-307 is accepted.

**“Consolidated Activity Report”** – means a daily report listing all Options, Futures and OTCI transactions.

**“Consolidated Affiliate”** – means, with respect to a Clearing Member, an Entity the financial results of which are consolidated with those of such Clearing Member for financial reporting purposes.

**“Contract Specifications”** – means the specifications prescribed by the relevant Exchange with respect to a particular Option or Future.

**“Corporation”** or **“CDCC”** – means Canadian Derivatives Clearing Corporation.

**“CORRA Rate”** – has the meaning attributed thereto in Section D-601.

**“Corresponding CDCC Delivery Requirement”** – has the meaning attributed thereto in Subsection A-804(4).

**“Coupon Income”** – has the meaning attributed thereto in Section D-601.

**“Crown”** – means any of (i) the “Federal Crown”, which means Her Majesty the Queen in right of Canada, (ii) the “BC Crown”, which means Her Majesty the Queen in right of British Columbia, (iii) the “Alberta Crown”, which means Her Majesty the Queen in right of Alberta, (iv) the “Saskatchewan Crown”, which means Her Majesty the Queen in right of Saskatchewan, (v) the “Manitoba Crown”, which means Her Majesty the Queen in right of Manitoba, (vi) the “Ontario Crown”, which means Her Majesty the Queen in right of Ontario, (vii) the “Quebec Crown”, which means Her Majesty the Queen in right of Quebec, (viii) the “NB Crown”, which means Her Majesty the Queen in right of New Brunswick, (ix) the “NS Crown”, which means Her Majesty in right of Nova Scotia, (x) the “PEI Crown”, which means Her Majesty the Queen in right of Prince Edward Island, and (xi) the “Newfoundland Crown”, which means Her Majesty in right of Newfoundland and Labrador.

**“CSA”** – means the Canadian Securities Administrators.

**“Current Rating”** – means, at any particular time with respect to an Entity which has applied for membership as a Limited Clearing Member or which has been admitted as a Limited Clearing Member, as applicable, (i) a rating issued within the last 12 months by a Designated Rating Organization for such Entity, (ii) if the Entity is not the subject of a Current Rating issued by a Designated Rating Organization, a rating issued by a Designated Rating Organization within the last 12 months for the Long-term Obligation of such Entity, or (iii) if neither such Entity itself nor the Long-term Obligation of such Entity is the subject of a Current Rating issued by a Designated Rating Organization, a rating issued by a Designated Rating

Organization within the last 12 months for the Long-term Obligation of such Entity's Consolidated Affiliate or Plan Sponsor.

**"CUSIP/ISIN"** – are acronyms standing for Committee on Uniform Security Identification Procedures and International Securities Identification Number respectively, herein used to refer to a security identifier assigned by CDS to any security.

**"Daily Settlement Summary Report"** – means the report designated as such by the Corporation as described in the Operations Manual.

**"Debt Securities"** – has the meaning attributed thereto in Subsection A-707(2).

**"Default Auction"** – has the meaning attributed thereto in Section A-609(2).

**"Default Management Period"** – means the period described in Section A-411.

**"Default Management Period End Date"** – means the date described in Section A-411.

**"Default Manual"** – means any manual designated as such by the Corporation, as amended from time to time.

**"Default Value"** – means the value determined by the Calculation Agent in accordance with Subsection A-409(6).

**"Default Waterfall"** – means the sum of the amounts listed under Subsections A-1002(1)(a)(i) to (iii), inclusively and which are available to the Corporation.

**"Delivery Agent"** – means the party through which the Corporation will effect the transfer of the Underlying Interest between the buyer and seller.

**"Delivery Default"** – has the meaning attributed thereto in Subsection A-409(6).

**"Delivery Month"** – means the calendar month in which a Future may be satisfied by making or taking delivery.

**"Delivery Request"** – has the meaning attributed thereto in Subsection A-409(6).

**"Deposit"** – has the meaning attributed thereto in Subsection A-212(1)(a).

**"Depository Agreement"** – means an agreement entered into between the Corporation and an Approved Depository.

**"Depository Receipt"** – means a Put Escrow Receipt, a Call Underlying Interest Deposit or a Futures Underlying Interest Deposit.

**"Derivative Instrument"** – means a financial instrument, the value of which derives from the value of an Underlying Interest. Without limiting the foregoing, this Underlying Interest may be a commodity or a financial instrument such as a stock, a bond, a currency, a stock or economic index or any other asset.

**"Designated Eligibility Rating"** – has the meaning attributed thereto in Subsection A-1B04.



**“Designated Maintenance Rating”** – has the meaning attributed thereto in Section A-1B05.

**“Designated Rating Organization”** or **“DRO”** – means any of DBRS Limited, Fitch, Inc., Moody’s Canada Inc. or Standard & Poor’s Rating Services (Canada), or any other credit rating organization designated as a “designated rating organization” by the CSA under National Instrument 25-101 - *Designated Rating Organizations*, and includes any affiliate of a Designated Rating Organization that issues credit ratings in a foreign jurisdiction and that has been designated as a “DRO affiliate” under the terms of the CSA’s designation of such Designated Rating Organization.

**“Detailed Futures Consolidated Activity Report”** – means the report created by the Corporation on a daily basis reporting the aggregate position in Futures held by a Clearing Member, which also contains the Settlement of Gains and Losses for that Clearing Member for that day.

**“Early Termination Date”** – has the meaning attributed thereto in Subsection A-409(7).

**“Electronic Communication”** – means, in respect of the Corporation, any one or more of the following: the posting of a notice, report or other information on the Corporation’s website, the transmission of a notice, report or other information to a Clearing Member by means of electronic mail and the making available on the Corporation’s computer, in a form accessible to a Clearing Member, of a notice, report or other information.

**“Emergency”** – means a situation materially affecting the Corporation’s operations resulting from (i) riot, war or hostilities between any nations, civil disturbance, acts of God, fire, accidents, strikes, earthquakes, labour disputes, lack of transportation facilities, inability to obtain materials, curtailment of or failure in obtaining sufficient power, gas or fuel, computer malfunction (whether mechanical or through faulty operation), malfunction, unavailability or restriction of the payment, computer or bank wire or transfer system and any other cause of inability that is beyond the reasonable control of the Corporation; (ii) any action taken by Canada, a foreign government, a province, state or local government or body, authority, agency or corporation, and any Exchange, Central Securities Depository, Approved Custodian, Acceptable Marketplace, Market Centre and Delivery Agent; (iii) the bankruptcy or insolvency of any Clearing Member or the imposition of any injunction or other restraint by any government agency, court or arbitrator upon a Clearing Member which may affect the ability of that member to perform its obligations; (iv) any circumstance in which a Clearing Member, a Central Securities Depository, an Approved Custodian, an Approved Depository or any other Entity has failed to perform contracts, is insolvent, or is in such financial or operational condition or is conducting business in such a manner that such Entity cannot be permitted to continue in business without jeopardizing the safety of assets, of any Clearing Member or the Corporation; or (v) any other unusual, unforeseeable or adverse circumstance which is not within the control of the Corporation.

**“End of Day DVP Settlement Time”** – has the meaning attributed thereto in Section D-601.

**“Entity”** – shall include an individual, a legal person, a corporation, a partnership, a trust and an unincorporated organization or association.

**“Escalation Procedure”** – has the meaning attributed thereto in Section 11 of the Operations Manual.

**“European Option”** (or **“European Style Option”**) – means an Option which can be exercised only on its Expiration Date.



**“Event of Default”** – has the meaning attributed thereto in Subsection A-409(2).

**“Exchange”** – means an exchange whose trades are guaranteed and/or cleared by the Corporation.

**“Exchange Transaction”** – means a transaction through the facilities of an Exchange for:

- (a) the purchase or writing of an Option or the reduction or elimination of a Long or Short Position in an Option; or
- (b) the buying or selling of a Future or the reduction or elimination of a Long or Short Position in a Future.

**“Exercise Notice”** – means a notice to the Corporation in the form prescribed by the Corporation, notifying the Corporation of the intent of the Clearing Member executing such notice to exercise an Option.

**“Exercised Position”** – means the position of a Clearing Member in any account in respect of Options which have been exercised by such Clearing Member in such account.

**“Exercise Price”** – means the specified price per unit at which the Underlying Interest may be purchased (in the case of a call) or sold (in the case of a put) upon the exercise of an Option. (Sometimes referred to as the Strike Price.)

**“Exercise Settlement Amount”** – means the amount which must be paid by the Corporation to the Clearing Member exercising a put Option or who has been assigned a call Option, against delivery of the Underlying Interest.

**“Exercise Settlement Date”** – means the date prescribed by the relevant Exchange within Contract Specifications of a particular Option.

**“Expiration Date”** – unless otherwise specified, means, in the case of monthly Options, the third Friday of the month and year in which the Option expires, or in the case of weekly Options, any Friday following the listing week which is a Business Day, but which is not an expiration day for any other Options already listed on the same underlying. If any such Friday is not a Business Day, then the Expiration Date will be the first preceding Business Day that is not an expiration day for any other Options already listed on the same underlying.

**“Expiration Time”** – means the time on the Expiration Date, as fixed by the Corporation, at which the Option expires.

**“Expiry Response Screen”** – means a computer display also known as the **“Expiry Workspace”** made available to Clearing Members in connection with Rule B-3.

**“Failed Delivery”** – has the meaning set out (i) in Subsection A-804(1) with respect to the delivery of an Acceptable Security, (ii) in Section B-407 with respect to the delivery of an Underlying Interest of an Option, (iii) in Section C-512 with respect to the delivery of an Underlying Interest of a Future other than an Acceptable Security, or (iv) in Section D-304 with respect to the delivery of an Underlying Interest of an OTCI that is not a Fixed Income Transaction.

**“Failed Payment Against Delivery”** – has the meaning attributed thereto in Section A-806.

**“Failure to Pay”** – has the meaning attributed thereto in Subsection A-409(4).

**“Final Settlement Amount”** – means the amount determined by the Calculation Agent in accordance with Subsection A-409(10).

**“Financial Asset”** – has the meaning assigned to this term by the QSTA.

**“Financial Institution Clearing Member”** – means a Clearing Member that is either:

- (a) a 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.

**“Firm”** – means a Clearing Member acting for its own account.

**“Firm Account”** – means the account or accounts required to be established for Firm Transactions of the Clearing Members pursuant to Sections B-102, B-103, C-102, C-103, D-102 and D-103.

**“Fixed Income Clearing Member”** – has the meaning attributed thereto in Section D-601.

**“Fixed Income Transaction”** – has the meaning attributed thereto in Section D-601.

**“Forward Curve”** – means the summary representation of the price of a commodity on a forward basis obtained by amalgamating all Reference Prices by tenor as defined in Section D-201.

**“Forward Price”** – means the price extracted from the Forward Curve and used in the daily Mark-to-Market Valuation and margining processes as defined in Section D-202.

**“Future”** – means a contract:

- (a) in the case of a Future settled by delivery of the Underlying Interest, to make or take delivery of a specified quantity and quality, grade or size of an Underlying Interest during a designated future month at a price agreed upon when the contract was entered into on an Exchange; or
- (b) in the case of a Future settled in cash, to pay to or receive from the Corporation the difference between the final settlement price and the trade price pursuant to standardized terms and conditions set forth by the Exchange where the contract is concluded and which is cleared by the Corporation.

**“Future Tear-Up Amount”** – has the meaning attributed thereto in Section A-1008(5).

**“Futures Underlying Interest Deposit”** – means the deposit by an Approved Depository acting on behalf of a Clearing Member or a client thereof of the Underlying Interest of a Future with the Corporation through a Central Securities Depository.

**“Futures Sub-Accounts Consolidated Activity Report”** – means the report created by the Corporation on a daily basis reporting the aggregate position held by a Clearing Member in each of its sub-accounts, which also contains the Settlement of Gains and Losses for that day with respect to each sub-account.

**“Good Deliverable Form”** – Underlying Interests shall be deemed to be in good deliverable form for the purposes hereof only if the delivery of the Underlying Interests in such form would constitute good delivery under the Contract Specifications.

**“Gross Delivery Requirement”** – means the quantity of Acceptable Securities required to be physically delivered through a Central Securities Depository by or to a Clearing Member, expressed on a gross basis, in accordance with Subsection D-606(6).

**“Gross Payment Against Delivery Requirement”** – means the amount required to be paid against physical delivery through a Central Securities Depository by or to a Clearing Member, expressed on a gross basis, in accordance with Subsection D-606(6).

**“Guaranteeing Delivery Agent”** – means a Delivery Agent who bears the responsibility of guaranteeing the acquisition or delivery of the Underlying Interest in the event of a delivery failure.

**“Include”, “Includes” and “Including”** – where used in these Rules, means “include”, “includes” and “including”, in each case, without limitation.

**“Insolvency Event”** – has the meaning attributed thereto in Subsection A-409(3).

**“Insolvency Proceedings”** – has the meaning attributed thereto in Subsection A-409(3).

**“In-the-Money-Option”** – means a call Option with an Exercise Price that is less than the Market Price of the Underlying Interest or a put Option where the Exercise Price exceeds the Market Price of the Underlying Interest.

**“Instrument”** – means a bill, note or cheque within the meaning of the *Bills of Exchange Act* (Canada) or any other writing that evidences a right to the payment of money and is of a type that in the ordinary course of business is transferred by delivery with any necessary endorsement or assignment, but does not include a security.

**“Intra-Day Margin Call”** – means the requirement to deposit supplementary Margin, as determined by the Corporation in accordance with Section A-705, at any time the Corporation deems necessary, and notably at such times as are specified in Section 2 of the Operations Manual.

**“Joint Regulatory Financial Questionnaire and Report”** – means the documents required under the applicable rules of the Investment Industry Regulatory Organization of Canada.

**“LCM RAD Net Gain”** – has the meaning attributed thereto in Section A-1005(3)(c).

**“Limited Clearing Member”** – means an applicant that has been admitted to membership by the Corporation as a “Limited Clearing Member” in accordance with Rule A-1B and which has also been admitted to membership of the Corporation as a Fixed Income Clearing Member.

**“Liquidating Settlement Account”** – means the account created following the default of a Clearing Member to recognize the value of all gains, losses, and expenses due to or from the Non-Conforming Member during the liquidation of positions and Margin Deposits, in accordance with Section A-402.

**“Long Position”** – means a Clearing Member’s interest as:

- (a) the holder of one or more Options of a Series of Options; or
- (b) the buyer of one or more Futures of a Series of Futures; or
- (c) the buyer of an Over-the-Counter Instrument.

**“Long-term Obligation”** – means a senior unsecured debt the original maturity of which is greater than one year.

**“Margin”** – means any and all of the deposits made by or on behalf of a Clearing Member with the Corporation or another person (including a Central Securities Depository or any other type of Securities Intermediary, including an Approved Custodian, a financial institution or the Bank of Canada) required or made pursuant to Rule A-7 Margin Requirements.

**“Margin Deposit”** – means, collectively,

- (a) any and all Securities, Cash, Instruments, cheques, Underlying Interests, Underlying Interest Equivalents, Long Positions and Short Positions;
- (b) any and all of the deposits required or made pursuant to Rule A-6 Clearing Fund Deposits, Rule A-7 Margin Requirements, Rule B-4 Delivery and Payment with Respect to Options Exercised, Rule C-5 Delivery of Underlying Interest of Futures and Rule D-3 Physical Delivery of Underlying Interest on Over-the-Counter Instruments, including Margins, Base Deposits, Additional Deposits, Variable Deposits, Put Escrow Receipts, Call Underlying Interest Deposits, and Futures Underlying Interest Deposits, and any other form of deposit accepted from time to time by the Corporation; and
- (c) any and all Financial Assets transferred to the Corporation through the facilities of a Central Securities Depository or held by an Approved Securities Intermediary;

deposited by or on behalf of a Clearing Member with the Corporation or another person (including a Central Securities Depository or any other type of Securities Intermediary, including an Approved Custodian, a financial institution or the Bank of Canada) for purpose of the performance of the obligations of the Clearing Member under the Rules.

**“Mark-to-Market Valuation”** – means the value determined by the Corporation representing the net asset value of a Transaction or account held by a Clearing Member, as defined in Section D-202.

**“Market Centre”** – means the local facility where the exchange of Underlying Interests occurs.

**“Market Maker”** – means an individual who has been approved by the Exchange on which he trades to trade for his own account or for the account of the Exchange member or non-member by which he is employed or for which he acts as agent in Options or Futures, and may include a futures trader, an options trader, a trader member, a market maker and a market specialist.

**“Market Maker Account”** – means the account or accounts required to be established for Exchange Transactions of the Clearing Member’s Market Makers pursuant to Sections B-102, B-103, C-102 and C-103.

**“Market Price”** – means the aggregate price of the Unit of Trading of the Underlying Interest as determined by the relevant or applicable Exchange or Exchanges.

**“Matured Amounts”** – means any financial cash flows resulting from the expiration of an OTCI.

**“Maturity Date”** – means the date on which final obligations related to a Transaction are executed.

**“Minimum Threshold”** – means the quantity starting from which an OTCI can be cleared.

**“Morning Net DVP Settlement Timeframe”** – has the meaning attributed thereto in Section D-601.

**“Morning Net Payment Against Delivery Requirement”** – has the meaning attributed thereto in Section D-601.

**“Morning Netting Cycle Timeframe”** – has the meaning attributed thereto in Section D-601.

**“Multi-Purpose Account”** – means a Market Maker Account and/or a Netted Client Account.

**“Net Daily Premium”** – when applied to any account of a Clearing Member for any Settlement Time, means the net amount payable to or by the Corporation at such Settlement Time in respect of all Exchange Transactions of the Clearing Member in Options in such account as a purchasing Clearing Member and a writing Clearing Member.

**“Net Daily Settlement”** – means the amount shown on the Daily Settlement Summary Report.

**“Net Delivery Requirement”** – with respect to Acceptable Securities, means the quantity thereof required to be physically delivered through a Central Securities Depository by or to a Clearing Member, expressed on a net basis, in accordance with Paragraph A-801(2)(d); and, with respect to any Underlying Interest of an OTCI that physically settles, other than Acceptable Securities, means the quantity of such Underlying Interest required to be physically delivered through a Delivery Agent by or to a Clearing Member, expressed on a net basis, in accordance with Section D-303.

**“Net Payment Against Delivery Requirement”** – means the amount required to be paid against physical delivery through a Central Securities Depository by or to a Clearing Member, expressed on a net basis, in accordance with Paragraph A-801(2)(c).

**“Netted Client Account”** – means a type of Client Account that requires specific documentation be signed between the Clearing Member and the Corporation, in which the Transactions of a sole Client are held on a net basis.

**“Netting Cut Off Time”** – means, with respect to a Business Day and a Clearing Member, a time specified in the Operations Manual on such Business Day for purposes of determining, in respect of such Clearing Member, all net payment and delivery obligations owing by or to such Clearing Member in accordance with these Rules on such Business Day.

**“Non-Conforming Member”** – has the meaning attributed thereto in Section A-1A04.

**“Non-delivered Assets”** – has the meaning attributed thereto in Subsection A-409(6)(d).

**“Non-Payment of the Cash Settlement Amount following a Delivery Default”** – has the meaning attributed thereto in Subsection A-409(6)(a).

**“Notional Quantity”** – means the size of the OTCI transaction expressed either outright, or in accordance with the number of contracts underlying the OTCI transaction.

**“Office Hours”** – means from 7:00 a.m. (ET) to 6:00 p.m. (ET) on any Business Day.

**“Open Interest” or “Open Position”** – means the position of a buyer or a seller of an Option, of a Future or of an OTCI which has not expired.

**“Opening Buy Transaction”** – means an Exchange Transaction the result of which is to create or increase a Long Position in the Series of Futures involved in such transaction.

**“Opening Purchase Transaction”** – means an Exchange Transaction the result of which is to create or increase a Long Position in the Series of Options involved in such Exchange Transaction.

**“Opening Sell Transaction”** – means an Exchange Transaction the result of which is to create or increase a Short Position in the Series of Futures involved in such transaction.

**“Opening Writing Transaction”** – means an Exchange Transaction the result of which is to create or increase a Short Position in the Series of Options involved in such Exchange Transaction.

**“Operations Manual”** – means the manual designated as such by the Corporation and any schedule to the Operations Manual including the Risk Manual, as amended from time to time.

**“Option”** – means a contract which, unless otherwise specified, gives the buying Clearing Member the right to buy (a call) or sell (a put) at a specified quantity of an Underlying Interest at a fixed exercise price during a specified time period and which obligates the writing Clearing Member to sell (a call) or buy (a put) the Underlying Interest, pursuant to standardized terms and conditions set forth by the Exchange where the contract is concluded or to the terms determined by the Corporation as acceptable and which is cleared by the Corporation.

**“Option Price”** – means the price per Option Series, reported by the Exchange at the end of any Business Day.

**“Option Tear-Up Amount”** – has the meaning attributed thereto in Section A-1008(5).

**“Option Type”** – means a put Option or a call Option.

**“Options Daily Transaction Report”** – means a report created by the Corporation providing the net premium payable/receivable.

**“OTCI Option Price”** – means the price per Option Series determined by the Corporation in accordance with the methodology set out in the Risk Manual.



**“Out-of-the-Money Option”** – means a call Option with an Exercise Price that exceeds the Market Price of the Underlying Interest or a put Option where the Exercise Price is less than the Market Price of the Underlying Interest.

**“Over-the-Counter Instrument”** or **“OTCI”** – means any bilaterally negotiated transactions, including Fixed Income Transactions, as well as any transactions entered into on any Acceptable Marketplaces.

**“Payment Default”** – has the meaning attributed thereto in Subsection A-409(5).

**“Payment Request”** – has the meaning attributed thereto in Subsection A-409(5).

**“Pending Payment Against Delivery Requirements”** – has the meaning attributed thereto in Section D-601.

**“Pending Delivery Requirements”** – has the meaning attributed thereto in Section D-601.

**“Plan Sponsor”** – means an Entity that established and maintains a registered pension plan.

**“Postponed Payment Obligation”** – with respect to the Corporation, means the amount by which its Afternoon Net DVP Settlement Requirement consisting of an obligation to pay against delivery of Acceptable Securities or its Gross Payment Against Delivery Requirement resulting from any Same Day Transaction submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time, as the case may be, in favour of a Provider of Securities has been reduced as a result of the Provider of Securities’ failure to deliver Acceptable Securities on the Business Day they were due by the End of Day DVP Settlement Time and the payment by the Corporation of such reduction has been postponed until full delivery by the Provider of Securities in accordance with Subsection A-804(1); and with respect to a Clearing Member who is a Receiver of Securities, means the amount by which its Afternoon Net DVP Settlement Requirement consisting of an obligation to pay against delivery of Acceptable Securities or its Gross Payment Against Delivery Requirement resulting from any Same Day Transaction submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time, as the case may be, in favour of the Corporation has been reduced as a result of the Corporation’s failure to deliver Acceptable Securities on the Business Day they were due by the End of Day DVP Settlement Time and the payment by such Clearing Member of such reduction has been postponed until full delivery by the Corporation in accordance with Subsection A-804(2).

**“President”** – means the person appointed by the Board as chief executive officer and chief administration officer of the Corporation.

**“Product Type”** – means the attribute of an OTCI which describes the rights and obligations of the counterparties involved in the transaction insofar as cash flows are concerned.

**“Provider of Securities”** – means a Clearing Member who owes to the Corporation a Net Delivery Requirement with respect to an Acceptable Security in accordance with Subsection D-606(3) or Paragraph A-801(2)(d) or a Gross Delivery Requirement with respect to an Acceptable Security in accordance with Subsection D-606(6), as the case may be.

**“Put Escrow Receipt”** – means a receipt, in a form that is acceptable to the Corporation, issued by an Approved Depository certifying that it holds Cash in the amount of the Exercise Price of a put Option on behalf of a Clearing Member or a client thereof, in trust for the Corporation.



**“Qualified Amount”** – means an amount which may be subject to the Reduced Amounts Distribution power, as defined under Section A-1005(3).

**“QSTA”** means the *Act respecting the transfer of securities and the establishment of security entitlements* (Quebec).

**“RAD Net Gain”** – has the meaning attributed thereto in Section A-1005(3)(b).

**“Receiver of Securities”** – means a Clearing Member who is owed by the Corporation a Net Delivery Requirement with respect to an Acceptable Security in accordance with Subsection D-606(3) or Paragraph A-801(2)(d) or a Gross Delivery Requirement with respect to an Acceptable Security in accordance with Subsection D-606(6), as the case may be.

**“Recovery Event”** – has the meaning attributed thereto in Section A-1002(1).

**“Recovery Loss Cash Payment”** – means the payment which may be required by the Corporation pursuant to Section A-1006.

**“Recovery Loss”** or **“Recovery Losses”** – has the meaning attributed thereto in Section A-1004.

**“Recovery Power”** – has the meaning attributed thereto in Section A-1001(1).

**“Recovery Process”** – has the meaning attributed thereto in Section A-1003.

**“Reduced Amounts Distribution Period”** – means the period during which the Corporation exercises the Reduced Amounts Distribution power, as defined under Section A-1005(2).

**“Reduced Amounts Distribution”** or **“RAD”** – means the Recovery Power defined under Section A-1005(1).

**“Reference Crown”** – means, with respect to an Entity that is a Crown Corporation, a mandatory of the Crown, an agency of the Crown or a public body of the Crown, the Crown which has established the Entity or under whose authority the Entity is acting.

**“Reference Price”** – means the price determined by the Corporation in accordance with Section D-201.

**“Registry”** – means any registry designated by the Corporation which, for the purposes of clearing Futures Contracts on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with physical settlement, has been established in order to ensure the accurate accounting of holding, transfer, acquisition, surrender, cancellation and replacement of the Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units.

**“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.

**“Replacement Eligibility Metric”** – has the meaning attributed thereto in Subsection A-1B04(g).

**“Replacement Maintenance Metric”** – has the meaning attributed thereto in Subsection A-1B04(g).

**“Replacement Metric”** – has the meaning attributed thereto in Subsection A-1B04(g).

**“Retained Amount”** – means an amount retained, collected, accounted for, or otherwise set aside by the Corporation in the exercise of its Reduced Amounts Distribution power, whether converted into cash or otherwise, as defined under Section A-1005.

**“Risk Limits”** – refers to the set of risk management limits imposed by the Corporation on Clearing Members’ clearing activities as updated from time to time by the Corporation.

**“Risk Manual”** – means the manual designated as such by the Corporation and any schedule to the Risk Manual including the Default Manual, as amended from time to time.

**“Rolling Delivery Obligation”** – with respect to a Clearing Member who is a Provider of Securities, means the quantity of a given Acceptable Security that it has failed to deliver to the Corporation under an Afternoon Net DVP Settlement Requirement consisting of an obligation to deliver Acceptable Securities under Subsection A-801(5) or a Gross Delivery Requirement resulting from any Same Day Transaction submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time under Subsection D-606(6), as the case may be, on the Business Day it was due by the End of Day DVP Settlement Time, which is rolled into the calculation of the next Business Day’s Net Delivery Requirement (and the Net Delivery Requirement of each subsequent Business Day) of such Clearing Member, in accordance with, and until such time as set out under, Subsection A-804(1); and with respect to the Corporation and a Clearing Member who is a Receiver of Securities, means the quantity of a given Acceptable Security that the Corporation has failed to deliver to such Clearing Member under an Afternoon Net DVP Settlement Requirement consisting of an obligation to deliver Acceptable Securities under Subsection A-801(5) or a Gross Delivery Requirement resulting from any Same Day Transaction submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time under Subsection D-606(6), as the case may be, on the Business Day it was due by the End of Day DVP Settlement Time (as a direct consequence of a Provider of Securities’ failure to deliver all or a part of its Afternoon Net DVP Settlement Requirement consisting of an obligation to deliver Acceptable Securities or its Gross Delivery Requirement resulting from any Same Day Transaction submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time, as the case may be, in respect of such Acceptable Security on such Business Day) which is rolled into the calculation of the Corporation’s next Business Day’s Net Delivery Requirement (and the Net Delivery Requirement of each subsequent Business Day) in favour of such Clearing Member, in accordance with, and until such time as set out under, Subsection A-804(2).

**“Rules”** or **“these Rules”** – means the Rules of the Corporation and the Operations Manual, as any such rules, and manual may from time to time be amended, changed, supplemented or replaced in whole or in part.

**“SRO Clearing Member”** – means a Clearing Member that is within the audit jurisdiction of the Investment Industry Regulatory Organization of Canada.

**“Same Day Transaction”** – has the meaning attributed thereto in Section D-601.

**“Securities Intermediary”** – has the meaning assigned to this term by the QSTA.

**“Security”** – means a document that is:

- (a) issued in bearer, order or registered form;

- (b) of a type commonly dealt in upon securities exchanges or markets or commonly recognized in any area in which it is issued or dealt in as a medium for investment;
- (c) one of a class or series or by its terms is divisible into a class or series of documents; and
- (d) evidence of a share, participation or other interest in property or in an enterprise or is evidence of an obligation of the issuer;

and includes such a document, not evidenced by a certificate, the issue and any transfer of which are registered or recorded in records maintained for that purpose by or on behalf of the issuer.

**“Series of Futures”** – means all Futures of the same class covering the same quantity of an Underlying Interest and having the same delivery month.

**“Series of Options”** – means all Options of the same class, the same type, covering the same quantity of an Underlying Interest and having the same Exercise Price and Expiration Date.

**“Settlement Accounts”** – has the meaning attributed thereto in Section A-217.

**“Settlement Agent”** – has the meaning attributed thereto in Section A-1A01(h).

**“Settlement Amount”** – means the amount calculated in accordance with these Rules payable to the delivering Clearing Member upon delivery of or cash settlement for the Underlying Interest in respect of a Transaction.

**“Settlement of Gains and Losses”** – means the settlement with the Corporation of the gains and losses on Open Positions in Futures pursuant to Section C-302.

**“Settlement Price”** – means the official daily closing price of a Future, as determined in accordance with Section C-301.

**“Settlement Time”** – means, with respect to a particular Transaction and a particular Business Day, the time on such Business Day as established by the Corporation in the Operations Manual and if no Business Day is specified, the time on the next Business Day following the trade day, calculation date or Coupon Payment Date, as applicable, as established by the Corporation in the Operations Manual, by which time Settlement of Gains and Losses, premium payments, all Margin requirements and all other payments required in respect of such Business Day, trade day, calculation date or Coupon Payment Date must be submitted to the Corporation.

**“Short Position”** – means a Clearing Member’s obligation as:

- (a) the writer of one or more Options of a Series of Options; or
- (b) the seller of one or more Futures in a Series of Futures; or
- (c) the seller of an Over-the-Counter Instrument.

**“Spread Position”** means:

- (a) the situation in which there is carried in a Clearing Member’s Client Account both an Option in the Short Position and an Option of the same Class of Options in the Long Position; or
- (b) the situation in which there is carried in a Clearing Member’s Client Account both a Long Position and a Short Position in Futures.

**“Straddle Position”** – means an equal number of call and put Options covering the same Underlying Interest and having the same Exercise Price and Expiration Date.

**“Style of Options”** – means the classification of an Option as either an American Option or a European Option. (Parts A and B of these Rules shall apply to both Styles of Options unless a specific Style of Option is designated).

**“Submission Cut-Off Time”** – has the meaning attributed thereto in Section D-601.

**“Tear-Up Value”** – has the meaning attributed thereto in Section A-1008(3).

**“Tender Notice”** – means a notice to the Corporation in the form prescribed by the Corporation, notifying the Corporation of the intent of the Clearing Member executing such notice to deliver the Underlying Interest of the Future.

**“Termination Value”** – means the amount determined by the Calculation Agent in accordance with Subsection A-409(10)(e).

**“Trade Confirmation”** – means the official document issued to a Clearing Member which details the attributes of the OTCI transaction and which signals the acceptance of the transaction for clearing by the Corporation.

**“Trade Price”** – means the price agreed upon for the Future when the contract is entered into on an Exchange.

**“Transactions”** – means all Futures, Options and Over-the-Counter Instruments which are determined by the Corporation as acceptable for clearing.

**“Transaction Value”** – has the meaning attributed thereto in Subsection A-409(10)(b).

**“Type of Options”** – means the classification of an Option as either a “put” or a “call”.

**“Uncovered Residual Risk”** or **“URR”** – means the amount of risk determined by the Corporation to be uncovered by the Base Initial Margin model set in accordance with the Risk Manual, resulting from an estimation of the loss that the Corporation would face in extreme but plausible market conditions done through rigorous stress tests. The URR represents the largest uncovered risk from a Clearing Member and its Affiliates (excluding Limited Clearing Members).

**“Underlying Interest”** – means an asset which underlies and determines the value of a Derivative Instrument or of an OTCI. The Underlying Interest may be a commodity or a financial instrument such as a stock, a bond, a currency, a stock or economic index or any other asset.



**“Underlying Interest Equivalent”** – means the Securities specified in Section A-706.

**“Unit of Trading”** – in respect of any Series of Futures and Series of Options or any OTCI, means the number of units of the Underlying Interest designated by the Corporation and the Exchange on which the Derivative Instrument is traded (as applicable) as being the number of units subject to a single Future or Option contract.

**“Valued Securities”** – has the meaning attributed thereto in Subsection A-707(3).

**“Variable Deposit”** – means the Clearing Fund deposit which may be required in addition to a Base Deposit pursuant to Section A-603.

**“Voluntary Contract Tear-Up”** – means the Recovery Power defined under Section A-1008(1).

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

### **Section A-1A01 ELIGIBILITY FOR MEMBERSHIP**

- (a) In order to apply for membership and subject to Subsection A-1A01(b), an applicant must be:
  - (i) a member or approved participant in good standing with an exchange recognized in a Canadian province or a dealer member in good standing with the Investment Industry Regulatory Organization of Canada; or
  - (ii) a bank or an authorized foreign bank to which the *Bank Act* (Canada), as amended from time to time, applies; or
  - (iii) a Financial Institution that is either:
    - (A) a 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) In order to apply for membership as a Limited Clearing Member, an applicant must meet the eligibility requirements set out in Section A-1B03 of the Rules.
- (c) 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.
- (d) 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.
- (e) 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.
- (f) 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.

- (g) 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.
- (h) The Corporation may in its sole discretion waive the requirements set forth in clauses (c), (d) or (g) if the Clearing Member enters into and maintains an agency agreement with a securities intermediary that is a full member participant in good standing with CDS (a “**Settlement Agent**”) 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. Where a Clearing Member acts through a Settlement Agent, the Corporation may, on an annual basis, send a written notice (“**Notice**”) to the Settlement Agent requiring the Settlement Agent to provide the Corporation with (i) its audited financial statements for the last fiscal year, along with accompanying notes related to the balance sheet; (ii) an independent auditors’ report on the suitability of the system of the Settlement Agent’s internal controls pertaining to its administration, information technology, trading, assignment, exercise, settlement, and margin and collateral; and (iii) the Settlement Agent’s current business continuity plan and disaster recovery plan. Where the Corporation requests the information listed at (i) to (iii) above, the Settlement Agent must provide the information or items requested by the Corporation within the time period specified in the Notice.

## Section A-1A02

### STANDARDS OF MEMBERSHIP

Every applicant to become a Clearing Member must meet such standards as may be adopted from time to time by the Board, including the following:

- (a) the applicant must meet the minimum financial resilience requirements then in effect, in accordance with Section A-301 or, in the case of an applicant to become a Limited Clearing Member, the minimum financial resilience requirements for admission as a Limited Clearing Member then in effect, in accordance with Section A-1B04;
- (b) the applicant must be engaged, or propose to engage, in the clearance of Options or Futures which are the subject of Exchange Transactions or in the clearance of Fixed Income Transactions or other OTCI transactions through the facilities of the Corporation;
- (c) the applicant shall demonstrate to the Corporation that it maintains adequate operations facilities and staff and has sufficient and competent personnel for the expeditious and orderly transactions of business with the Corporation and other Clearing Members, and to meet the requirements of these Rules; and
- (d) unless the applicable Entity is applying to become a Limited Clearing Member, the applicant has deposited with the Corporation its initial deposit with the Clearing Fund in the amount and at the time required by the Rules and has signed and delivered to the Corporation an agreement in such form as the Board shall require.



### **Section A-1A03**

#### **ADMISSION PROCEDURE**

Applications for membership shall be in such form and contain such information as the Board shall from time to time prescribe. Officers of the Corporation shall review applications for membership and shall recommend approval or disapproval thereof to the Board. The Corporation may but is not obligated to examine the books and records of any applicant and such applicant's facilities which support the applicant's business, risk management, technology infrastructure, operations, corporate governance, assets and affairs, in each case relating to the applicant's contemplated clearing activities as a Clearing Member under these Rules, and take such evidence as it may deem necessary or employ such other means as it may deem desirable or appropriate to ascertain relevant facts bearing upon the applicant's qualifications. If the officers of the Corporation propose to recommend to the Board that an application for membership be disapproved, it shall first notify the applicant of its proposed recommendation and the grounds therefore, and shall afford the applicant an opportunity to be heard and to present evidence on its own behalf.

If the applicant fails to request a hearing or if, after a hearing, officers of the Corporation still propose to recommend disapproval, officers of the Corporation shall make their recommendation to the Board in writing, accompanied by a statement of the grounds therefore, and a copy thereof shall be furnished to the applicant on request.

The Board shall independently review any recommendation by officers of the Corporation, and if the applicant so requests, afford the applicant further opportunity to be heard and to present evidence. If the Board disapproves the application, written notice of its decision, accompanied by a statement of the grounds thereof, shall be provided to the applicant.

An applicant shall have the right to present such evidence as it may deem relevant to its application.

Nothing contained herein shall be construed as derogating or attempting to derogate from the right of any applicant whose application has been disapproved to avail itself of any right of appeal which is provided to such applicant by applicable law.

### **Section A-1A04**

#### **NON-CONFORMING MEMBER**

- (1) A Clearing Member who is or may become insolvent or unable to meet its obligations shall immediately notify the Corporation of its situation by telephone. Such notice shall be confirmed by the Clearing Member by notice in writing to the Corporation sent by facsimile transmission within the next business day.
- (2) A Clearing Member who, in the judgement of the Corporation or pursuant to notification to the Corporation under Subsection (1), is or may be insolvent or unable to meet its obligations, becomes a Non-Conforming Member.
- (3) A Limited Clearing Member who does not meet the minimum ongoing financial resilience requirements prescribed in Section A-1B05 shall automatically be determined by the Corporation to be a Non-Conforming Member.

- (4) Without limiting the application of this Rule, any one of the following events, whether actual or anticipated by the Corporation, constitutes a reasonable ground for the Corporation to determine in its judgement that a Clearing Member is a Non-Conforming Member:
- (a) breach of any term, eligibility, qualification, standard or condition of the Application for Membership or any other violation of these Rules;
  - (b) breach of a rule of an Exchange, a Central Securities Depository, an applicable self-regulatory organization or regulatory agency, or of any other recognized, designated or foreign investment exchange or clearing agency which in the Corporation's reasonable determination has a material adverse effect on the Clearing Member or its ability to perform its obligations to the Corporation;
  - (c) refusal of an application for membership, breach of the terms of membership or contractual agreement, or suspension, termination or expulsion from membership of an Exchange, a Central Securities Depository, an applicable self-regulatory organization, Market Centres and/or Delivery Agents, the Registry, or any other recognized, designated or foreign investment exchange or clearing agency;
  - (d) refusal of a licence, breach of the terms of its licence or withdrawal or suspension of such licence by a regulatory agency which in the Corporation's reasonable determination has a material adverse effect on the Clearing Member or its ability to perform its obligations to the Corporation;
  - (e) contemplated, threatened or actual action by a Crown, a regulatory agency, a court of justice or an administrative authority against or in respect of the Clearing Member under any provision or process of law or regulation which in the Corporation's reasonable determination has a material adverse effect on the Clearing Member or its ability to perform its obligations to the Corporation;
  - (f) default in a payment, deposit, delivery or acceptance of delivery required or payable under the Application for Membership or these Rules;
  - (g) an order, arrangement, proposal, distress or execution is presented, made or approved in any jurisdiction to or by a court of competent jurisdiction, a Crown or a regulatory agency, relating to the termination, bankruptcy, insolvency or winding up of the Clearing Member or the appointment of an administrator, receiver manager, trustee, or person with similar power in connection with the Clearing Member;
  - (h) the determination on reasonable grounds by the Corporation that the Clearing Member is in such financial or operating condition that its continuation as a Clearing Member in good standing would jeopardize the interests of the Corporation or other Clearing Members;
  - (i) any of the conditions set out in paragraphs (a) to (h) applies to an Affiliate of a Clearing Member, having, in the reasonable judgement of the Corporation, a material impact on the financial condition of the Clearing Member; or

- (j) such other event which in the Board's or, if time does not permit action by the Board, the Corporation's, reasonable determination has a material adverse effect on the Clearing Member or its ability to perform its obligations to the Corporation.
- (5) If a Clearing Member is late in making a payment at Settlement Time, the Corporation shall impose fines and may deem that Clearing Member a Non-Conforming Member, in accordance with Section 7 of the Operations Manual. In addition, the Board may take disciplinary measures set forth in Rule A-5 against the Non-Conforming Member.
- (6) Notwithstanding anything to the contrary contained in Subsection A-1A04(4), if (a) a Clearing Member is in default in relation to any payment, deposit, delivery or acceptance of delivery required or payable under these Rules, (b) the Escalation Procedure is applicable in connection with such default, and (c) such Clearing Member has duly notified the Corporation under the Escalation Procedure in accordance with Section 11 of the Operations Manual, the Corporation may, subject to complying with the Escalation Procedure and providing prior notification to the Bank of Canada, determine that such Clearing Member is a Non-Conforming Member.
- (7) Except where the Corporation has been notified under Subsection (1), the Corporation shall, in writing or by telephone, notify a Clearing Member that it has become a Non-Conforming Member. Before doing so, the Corporation will enter into consultations with the Bank of Canada with respect to a Clearing Member who may be affected by an order under subsection 39.13(1) of the *Canada Deposit Insurance Corporation Act* or the Affiliates of such Clearing Member. The Corporation may also, in its sole discretion, notify the Board, all Clearing Members, the Exchanges, the appropriate self-regulatory organization or regulatory agency of which the Clearing Member is a member, the regulatory agency of the Corporation, and such other Entities as the Corporation may consider appropriate.
- (8) The Corporation can reinstate the status of a Non-Conforming Member to a Clearing Member in good standing if the Clearing Member resolves, to the satisfaction of the Corporation, the issue(s) which led to its Non-Conforming Member status.

### **Section A-1A05** **SUSPENSION**

- (1) The Board may suspend a Non-Conforming Member, taking into consideration whether the suspension may protect the integrity of the market.
- (2) Upon such suspension, the Corporation shall cease to act for the suspended Non-Conforming Member.
- (3) The suspension may be total or may be for any function with respect to a particular security or class of securities, with respect to a particular transaction or class of transactions, or with respect to securities or transactions generally. Any suspension may be limited to a particular location or office of the Non-Conforming Member.
- (4) The Board may lift the suspension of the Non-Conforming Member if the Corporation in its sole discretion determines that the Non-Conforming Member has corrected the situation which caused

the Corporation to suspend the Non-Conforming Member in such a manner that it is unlikely to occur again.

- (5) A suspended Non-Conforming Member shall remain liable to the Corporation for all obligations, costs and expenses, including all Margin requirements, including calls whether occurring before or after suspension, and other requirements, arising out of or in connection with such Non-Conforming Member's positions, and shall cooperate fully with the Corporation in respect of all matters arising out of or relating to the settling of or dealing with such positions.

### **Section A-1A06**

#### **NOTICE OF SUSPENSION TO CLEARING MEMBERS**

Upon the suspension of a Non-Conforming Member, the Corporation shall notify all Clearing Members, the Exchanges, and the suspended Non-Conforming Member's applicable self-regulatory organization or regulatory agency, the regulatory agency of the Corporation and such other Entities as the Corporation may consider appropriate. Such notice shall state, in general terms, how pending Exchange Transactions, Open Positions, tendered Exercise Notices or Tender Notices, Exercised Positions, Assigned Positions, and other pending matters will be affected, what steps are to be taken in connection therewith, and the right of the suspended Non-Conforming Member to appeal the suspension before the Board.

### **Section A-1A07**

#### **APPEAL OF SUSPENSION**

A Non-Conforming Member suspended pursuant to Section A-1A05 shall receive from the Corporation a written statement of the grounds for its suspension, and shall have the right to appeal its suspension within ten business days from the effective date of the suspension.

Where a suspended Non-Conforming Member appeals its suspension, the Board shall give the appellant the opportunity to be heard as promptly as possible, and in no event more than 14 days after the filing of the notice of appeal.

The appellant shall be notified of the time, place and date of the hearing not less than three business days in advance of such date. At the hearing, the appellant shall be afforded an opportunity to be heard and to present evidence on its own behalf and may, if it so desires, be represented by counsel. As promptly as possible after the hearing the Board shall, by the vote of a majority of its members, affirm or reverse the suspension, and then instruct the Secretary of the Corporation to notify the appellant in writing of the decision. If the decision shall have been to affirm the suspension, the appellant shall be given a written statement of the grounds thereof.

The filing of an appeal of a suspension shall not impair the validity or stay the effect of the suspension appealed from. The reversal of a suspension shall not invalidate any acts of the Corporation taken prior to such reversal pursuant to such suspension and the rights of any person which may arise out of any such acts shall not be affected by the reversal of such suspension.

Nothing contained herein shall be construed as derogating or attempting to derogate from the right of any Clearing Member the suspension of which has been affirmed by the Board to avail itself of any right of appeal which is provided to such Clearing Member by applicable law.

### **Section A-1A08**

#### **TERMINATION OF MEMBERSHIP**

- (1) The Board shall, at its next meeting following the calendar month in which the Non-Conforming Member is suspended, or if an appeal is heard pursuant to Section A-1A07, following the calendar month in which the Board has affirmed the decision to suspend, lift the suspension or terminate the membership in the Corporation of a suspended Non-Conforming Member.
- (2) A Non-Conforming Member shall be given the opportunity to be heard by the Board before its membership is terminated.
- (3) Fifteen business days before the meeting of the Board at which the termination of a suspended Non-Conforming Member is to be considered, the Corporation shall give to the suspended Non-Conforming Member notice in writing of the meeting and a summary of the reasons for the proposed termination.
- (4) A committee of the Board shall not exercise the powers of the Board under this Rule A-1A, and the Board and the suspended Non-Conforming Member may mutually agree on a variation of such notification and meeting date.
- (5) The suspended Non-Conforming Member shall cease to be a Clearing Member as of the date and hour specified in the written decision of the Board.
- (6) The Corporation shall notify the regulatory bodies which have jurisdiction over the Corporation when a meeting of the Board is called to authorize the termination of the membership of a suspended Non-Conforming Member.
- (7) The Corporation shall promptly notify other Clearing Members, the Exchanges, the suspended Non-Conforming Member's applicable self-regulatory organization or regulatory agency, the regulatory agency of the Corporation and such other Entities as the Corporation may consider appropriate, that the Board has terminated the membership of a suspended Non-Conforming Member, indicating the effective date of the termination.

### **Section A-1A09**

#### **VOLUNTARY WITHDRAWAL**

- (1) A Clearing Member may, at any time, notify the Corporation that it wishes to withdraw as a Clearing Member of the Corporation, by giving a minimum of 30 days' prior written notice. The Clearing Member shall cease to be a Clearing Member on the later of (a) the date of expiry of the notice period or (b) the date, as determined by the Corporation, on which the Clearing Member has satisfied all of its obligations toward the Corporation and any applicable requirements for withdrawal, including the closing of all the Clearing Member's Open Positions and the performance of any obligation arising in connection with the closing of such Open Positions. Withdrawal of a Clearing Member which has provided a prior notice of withdrawal to the Corporation, in the event that a Default Management Period is initiated before the effective date of withdrawal, shall not occur until the end of the Default Management Period and such Clearing Member shall cease to be

a Clearing Member at the date, as determined by the Corporation, on which the Clearing Member has satisfied all of its obligations toward the Corporation.

- (2) The Corporation shall notify all Clearing Members upon receipt of a notice of withdrawal pursuant to Section A-1A09(1).
- (3) Upon receipt of a notice of withdrawal pursuant to Section A-1A09(1) from a Non-Conforming Member, the Corporation shall promptly notify the Board, all Clearing Members, the Exchanges, the self-regulatory organization or agency having jurisdiction over the activities of such Non-Conforming Member and any regulatory agency having jurisdiction over the activities of the Corporation and any other entity or organization that the Corporation may consider appropriate, that it has received a notice of withdrawal from such Non-Conforming Member.

### **Section A-1A10** **TRANSFER/SURVIVAL OF OBLIGATIONS**

- (1) A Clearing Member may not allocate or transfer any rights or obligations under any Transaction confirmed in its name except as otherwise expressly provided in these Rules or with the prior consent of the Corporation, in its sole discretion.
- (2) The liabilities and obligations of a Clearing Member to the Corporation and to other Clearing Members, and of the Corporation and other Clearing Members to the Clearing Member, arising from its membership shall survive the suspension, termination or withdrawal of the Clearing Member's membership as though the former Clearing Member were still a Clearing Member.
- (3) Nothing contained herein shall be construed as derogating or attempting to derogate from the right of any suspended or terminated Non-Conforming Member to avail itself of any right of appeal which is provided by applicable law.

### **Section A-1A11** **REINSTATEMENT OF MEMBERSHIP**

- (1) A Clearing Member which has withdrawn as a Clearing Member or had its membership terminated may at any time be considered for reinstatement by the Board provided that the Clearing Member, if it is then eligible for membership, re-applies to become a Clearing Member, pays any entrance or reinstatement fee determined by the Board, meets the standards and qualifications for membership, demonstrates to the satisfaction of the Board that it has discharged all of its liabilities and indebtedness to the Corporation and the other Clearing Members, and the application for membership is accepted by the Board.
- (2) The Board may, in its sole discretion and on terms and conditions determined by the Board, approve or reject the new application for membership from a terminated or withdrawn Clearing Member. A committee of the Board shall have no authority to exercise the powers of the Board under this Rule A-1A.

**RULE A-1B**  
**LIMITED CLEARING MEMBERS MEMBERSHIP**

**Section A-1B01**  
**LIMITED CLEARING MEMBERS CORE PRINCIPLES**

(1) No Clearing Fund Contribution

Subject to applicable law, a Limited Clearing Member shall not be required to make a deposit or contribution to the Clearing Fund or to provide any other type of collateral or Margin Deposit to the Corporation which could be realized upon, applied or used by the Corporation in connection with the failure by another Clearing Member to pay or perform any of its obligations to the Corporation.

(2) No Obligation Resulting From the Default of Another Clearing Member

Subject to applicable law and Section A-1005, Limited Clearing Members shall not have any obligation to the Corporation in connection with the failure by another Clearing Member to pay or perform any of its obligations to the Corporation.

(3) No Reduction of Corporation's Obligations

Subject to applicable law and Section A-1005, the Corporation shall not have the right to reduce or terminate any of its obligations to any Limited Clearing Member in connection with the failure by another Clearing Member to pay or perform any of its obligations to the Corporation.

For further clarity, no Limited Clearing Member will be subject to any Recovery Power which may be available to the Corporation in connection with the failure by another Clearing Member to pay or perform any of its obligations to the Corporation or in connection with a Recovery Process, other than the exercise of the Corporation's Reduced Amounts Distribution power pursuant to Section A-1005. This shall not preclude a Limited Clearing Member to voluntarily participate in any (i) auction held by the Corporation in connection with the failure by another Clearing Member to pay or perform any of its obligations to the Corporation or (ii) Recovery Power in accordance with the Rules.

(4) Specific Margin Requirements

A Limited Clearing Member shall be required to deposit Margin in accordance with Section A-1B08 and the Operations Manual.

**Section A-1B02**  
**DEFINITIONS**

Unless the context otherwise requires or unless different meanings are specifically defined, for all purposes of these Rules the capitalized terms used herein shall have the meanings given them in Section A-102.



### **Section A-1B03**

#### **LIMITED CLEARING MEMBERS ELIGIBILITY FOR MEMBERSHIP**

In order to apply for membership as a Limited Clearing Member, an applicant must intend to submit Fixed Income Transactions to the Corporation for clearing and its Application for Membership must specify that it wishes to be admitted as a Limited Clearing Member on the basis that it is one of the following:

- (a) a Crown, a public body of a Crown, an agency of the Crown, a mandatary of the Crown or a Crown corporation other than the Bank of Canada;
- (b) the Bank of Canada;
- (c) a federally or provincially regulated pension plan board, pension fund or compensation fund, the majority of whose assets under management are used to fund obligations under one or more pension plans serving the retirement needs of employees in the broader public sector, and in relation to which bankruptcy, insolvency, winding-up or restructuring or the appointment of an administrator, receiver manager, trustee or person with similar power in connection with the entity requires the taking of a special action by a federal or provincial legislative body or a governmental body, organization or agency having jurisdiction over that entity, as applicable, or in relation to which bankruptcy and insolvency laws do not apply and a winding-up of such entity is subject to an administrator's fiduciary and statutory obligations; or
- (d) a Crown, a public body of a Crown, a Crown corporation or an agency or mandatary of the Crown, the majority of whose assets under management are assets used to fund obligations under one or more pension plans and, if applicable to such entity, government funds, and in relation to which bankruptcy, insolvency, winding-up or restructuring or the appointment of an administrator, receiver manager, trustee or person with similar power in connection with the entity requires the taking of a special action by a federal or provincial legislative body or a governmental body, organization or agency having jurisdiction over that entity, as applicable.

### **Section A-1B04**

#### **LIMITED CLEARING MEMBERS STANDARDS OF MEMBERSHIP**

Every applicant to become a Limited Clearing Member other than the Bank of Canada must meet such standards as may be adopted from time to time by the Board, including, at the time of its application, the following:

- (a) the applicant must have a Current Rating issued by at least two Designated Rating Organizations that is at or above (each, a **“Designated Eligibility Rating”**):
  - (i) in the case of an applicant specifying that it wishes to be admitted as a Limited Clearing Member on the basis of the membership requirements prescribed by Subsection A-1B03(a) above, both the rating of the applicant's Reference Crown and the ratings set forth in Option A below; or

- (ii) in the case of an applicant specifying that it wishes to be admitted as a Limited Clearing Member on the basis of the membership requirements prescribed by Subsections A-1B03(c) or (d) above, the ratings set forth in Option B below:

<b>Designated Rating Organization</b>	<b>Option A</b>	<b>Option B</b>
DBRS Limited	A Low	AA
Fitch Inc.	A-	AA
Moody's Canada Inc.	A3	Aa2
Standard & Poor's Rating Services (Canada)	A-	AA

- (b) there must be no announcement by the Designated Rating Organizations referred to in Subsection A-1B04(a) above or their respective DRO affiliates that the Limited Clearing Member's Current Rating may be downgraded to a rating that would not at a minimum be equal to the applicable Designated Eligibility Rating;
- (c) the applicant must propose to engage in the clearance of Fixed Income Transactions through the facilities of the Corporation;
- (d) the applicant must demonstrate to the satisfaction of the Corporation that:
- (i) it is sufficiently active in the Canadian repurchase transactions market and the Canadian bond cash buy or sell trading market;
  - (ii) it has been self-executing in the Canadian repurchase transactions market for a continuous period of a minimum of three years prior to applying for membership with the Corporation;
  - (iii) it is currently party to master repurchase agreements in a standard form acceptable to the Corporation under which it has agreed to enter into repurchase transactions in the Canadian market with a minimum of three other Clearing Members that are actively clearing Fixed Income Transactions through the facilities of the Corporation;
  - (iv) it has adequate operations facilities including adequate technical functionality to clear Fixed Income Transactions with the Corporation, and has sufficient and competent personnel for the expeditious or orderly transactions of business with the Corporation and other Fixed Income Clearing Members and to meet the requirements of the Rules;
  - (v) it has the capacity, power and authority to execute and deliver the Application for Membership for Limited Clearing Members and perform its obligations to the Corporation under these Rules; and

- (vi) it has the capacity, power and authority to grant in favour of the Corporation a first ranking pledge, lien, security interest and hypothec on collateral to secure the performance of all of its obligations to the Corporation pursuant to these Rules;
- (e) if required by the Corporation, the applicant must arrange for the delivery by its counsel to the Corporation of a netting and insolvency opinion, in form and substance acceptable to the Corporation, with respect to the applicant's proposed Fixed Income Transactions;
- (f) the applicant must demonstrate sound corporate governance practices, an effective corporate structure, prudent portfolio and risk management practices and procedures, a risk profile and other elements and factors, which render, in the opinion of the Corporation, the applicant suitable as a Fixed Income Clearing Member such that accepting the applicant would not cause undue risk to the Corporation or other Fixed Income Clearing Members or to the soundness of the Corporation's Fixed Income Transactions clearing system; and
- (g) The Corporation may in its sole discretion waive the requirements set forth in Subsections A-1B04(a) and (b) above under the condition that the Limited Clearing Member enters into an agreement with the Corporation that establishes, as determined by the Corporation in its sole discretion and agreed in writing by the Corporation and such Limited Clearing Member at the time that such Entity's Application for Membership is submitted to the Corporation, (i) any financial resilience metric acceptable to the Corporation (a "**Replacement Metric**"), (ii) the minimum level of the Replacement Metric required by the Corporation in order to admit such Entity as a Limited Clearing Member, pursuant to this Subsection A-1B04 (a "**Replacement Eligibility Metric**") and (iii) the minimum level of the Replacement Metric which must be maintained by such Limited Clearing Member pursuant to Section A-1B05 (a "**Replacement Maintenance Metric**"), which agreement shall be in form and substance satisfactory to the Corporation.

### Section A-1B05

#### ONGOING FINANCIAL RESILIENCE REQUIREMENTS

Except with respect to the Bank of Canada, a Limited Clearing Member must:

- (1) subject to subsection (2) below, maintain a Current Rating issued by at least one Designated Rating Organization that is at or above the ratings set forth below (a "**Designated Maintenance Rating**"):
  - (a) in the case of a Limited Clearing Member admitted on the basis of the membership requirements prescribed by Subsection A-1B03(a) above, the ratings set forth in Option A below; or

- (b) in the case of a Limited Clearing Member admitted on the basis of the membership requirements prescribed by Subsections A-1B03(c) or (d) above, the ratings set forth in Option B below:

<b>Designated Rating Organization</b>	<b>Option A</b>	<b>Option B</b>
DBRS Limited	BBB	A
Fitch Inc.	BBB	A
Moody's Canada Inc.	Baa2	A2
Standard & Poor's Rating Services (Canada)	BBB	A

in each case, provided there has been no announcement by the Designated Rating Organization or its DRO affiliate that the Current Rating may be downgraded to a rating that would not at a minimum be equal to the Designated Maintenance Rating; or

- (2) in the case of a Limited Clearing Member in respect of which a Replacement Metric has been established pursuant to Subsection A-1B04(g), maintain its Replacement Metric to the level that was deemed acceptable by the Corporation as Replacement Maintenance Metric at the time of Application for Membership.

### **Section A-1B06**

#### **DUE DILIGENCE**

In addition to the powers of the Corporation provided in Sections A-304 and A-305, the Corporation has the authority to inspect at least annually the financial condition (including its books and records), business, risk management, technology infrastructure, operations, corporate governance, assets and affairs of Limited Clearing Members and may require any responsible representative of the Limited Clearing Member to answer any questions deemed reasonably necessary by the Corporation to assess the Limited Clearing Member's ongoing compliance with the Rules.

### **Section A-1B07**

#### **LIMITED CLEARING MEMBERS ONGOING MONITORING**

- (1) If the Corporation determines as a result of any early warning notice under Section A-303, any filing under Section A-304 or A-305 or any general or special examination under Section A-306 or Section A-1B06, or from any other information given to or obtained by it, including from the Limited Clearing Member, in accordance with the Rules, that a Limited Clearing Member does not maintain a Current Rating issued by a minimum of two different DROs that is at or above the applicable Designated Eligibility Rating or, if applicable, does not maintain its Replacement Metric

at or above the applicable Replacement Eligibility Metric, the Corporation may take any or all of the following actions:

- (a) review the reports issued by a DRO in respect of the Limited Clearing Member, its Consolidated Affiliate or Plan Sponsor;
- (b) engage discussion with the Limited Clearing Member to determine any remedial actions to be taken by the Limited Clearing Member, and, where appropriate, require the Limited Clearing Member to provide a plan, including estimated timelines to address the situation;
- (c) generally monitor the implementation of the plan provided under Subsection A-1B07(1)(b) where applicable;
- (d) determine and notify, or recommend to the Board, as appropriate, any action, necessary or advisable for the protection of the Corporation, Clearing Members or the public; and
- (e) immediately take any action pursuant to Section A-1B06.

### Section A-1B08 LIMITED CLEARING MEMBER MARGIN REQUIREMENTS

- (1) Prior to the Settlement Time on every Business Day, every Limited Clearing Member shall be obligated to deposit Margin determined by the Corporation in accordance with Rule A-7 Margin Requirements and the methodology set out in the Risk Manual.
- (2) In respect of all Transactions to which a Limited Clearing Member is a party, a multiplier (the “**Effective Ratio**”), as established and reviewed on a periodic basis pursuant to the methodology set out in the Risk Manual, shall be applied to the Base Initial Margin required to be deposited by such Limited Clearing Member pursuant to Rule A-7 and calculated in accordance with the methodology set forth in the Risk Manual.

## **RULE A-2**

### **MISCELLANEOUS REQUIREMENTS**

#### **Section A-201**

##### **OFFICES**

Every Clearing Member shall maintain an office at a location approved by the Corporation. A representative of the Clearing Member authorized in the name of the Clearing Member to sign all instruments and take all action necessary for conducting business with the Corporation shall be present at such office on every Business Day between such hours as may be specified from time to time by the Corporation. Such representative shall be subject to the approval of the Corporation and shall be authorized to act on behalf of the Clearing Member by a written power of attorney in the case of a partnership or by a resolution of the board of directors in the case of a corporation. Such power of attorney or resolution, as the case may be, shall be in a form approved by the Corporation.

#### **Section A-202**

##### **EVIDENCE OF AUTHORITY**

- (1) Every Clearing Member shall file with the Corporation a certified list of the signatures of the representatives (“**Authorized Representatives**”) of such Clearing Member (including partners and officers) who are authorized to sign certificates, cheques, agreements, receipts, orders and other papers necessary for conducting business with the Corporation, together with an executed copy of the powers of attorney, resolutions or other instruments giving such authority.
- (2) Any Clearing Member who has given a person a power of attorney or other authorization to transact business with the Corporation shall, immediately upon the withdrawal, retirement, resignation or discharge of such person or the revocation of his power to act, give written notice of such fact to the Corporation.
- (3) Where:
  - (a) a document is presented by a Clearing Member to the Corporation bearing the signature of an Authorized Representative; or
  - (b) data is transferred electronically from a Clearing Member to the Corporation,the Corporation shall be entitled to assume the authenticity of the authority of the person presenting the document or initiating the electronic transfer to do so on behalf of the Clearing Member.
- (4) The Corporation shall be entitled to rely and act upon any instruction given hereunder. The Corporation shall be under no obligation to ensure the genuineness or validity of any signature purporting to be that of an authorized signatory of the Clearing Member, or of the authority of any person initiating any electronic data transfer. The Corporation shall have no responsibility in the event that any such signature, or data is forged, unauthorized or otherwise invalid or ineffective.

### **Section A-203**

#### **RECEIPT OF DOCUMENTS**

- (1) A box or other facility at an office of the Corporation (or of a designated agent of the Corporation) will be assigned to each Clearing Member for the distribution of forms, papers, documents, notices, statements and such other items as the Corporation deems appropriate. An item deposited in a Clearing Member's box shall be deemed received by such Clearing Member when deposited.
- (2) Every Clearing Member shall be responsible for sending an Authorized Representative at an office of the Corporation for receipt of cheques, drafts and all items placed in the box of the Clearing Member at such intervals as may be necessary for the Clearing Member to perform all obligations and duties required by these Rules.

### **Section A-204**

#### **DOCUMENTS AND OTHER ITEMS SUBMITTED TO THE CORPORATION**

All reports, documents, papers, statements, notices, cheques, drafts, certificates of deposit and other items required by the Rules to be submitted to the Corporation shall, except as may otherwise be specifically prescribed by the Rules, be delivered to the designated office of the Corporation or its agent at such times, on such forms and in such manner as the Corporation shall prescribe. Each item delivered to the Corporation shall clearly indicate the identity of the Clearing Member making such submission.

### **INTERPRETATION AND POLICIES**

- (1) Every Clearing Member shall ensure that the signature that appears on any reports, documents, papers, statements, notices, and other items (as the Corporation shall prescribe from time to time) presented to the Corporation bears the signature of an Authorized Representative.
- (2) Each Clearing Member shall be bound by all such reports, documents, papers, statements, notices and other items as the Corporation shall prescribe pursuant to Paragraph (1).

### **Section A-205**

#### **RECORDS**

- (1) Every Clearing Member shall keep up to date records showing, with respect to each Transaction:
  - (a) the names of the parties to the Transaction;
  - (b) the trade date;
  - (c) the name of the client;
  - (d) if in respect of a Future, the Class and Series of Futures, the Underlying Interest, the number of contracts, the contract price, the delivery month and year, whether the



transaction was a buy or sell transaction and whether it was an opening or closing transaction;

- (e) if in respect of an Option, the Class and Series of Options, the Underlying Interest, the number of contracts, the premium, the Exercise Price, the expiry month, whether the transaction was a purchasing or a writing transaction and whether it was an opening or a closing transaction;
  - (f) if in respect of any OTCI the trade details as specified in the Trade Confirmation; and
  - (g) such other information as may from time to time be required by law, regulation, an Exchange or the Corporation.
- (2) Every Clearing Member shall retain and keep readily accessible to the Corporation in a form acceptable to the Corporation, all records required by these Rules, including without limitation, the records referred to in Subsection A-205(1), for at least seven (7) years from the end of the calendar year to which such records relate in such form as the Corporation may authorize. The Corporation shall be entitled to inspect or take temporary possession of any such records at any time upon demand. All reports shall be available to the Corporation no later than 8:00 a.m. on the Business Day immediately following the report date. A Clearing Member must file any information requested by the Corporation within the time period specified in such demand.

### Section A-206

#### NOTICES AND REPORTS BY THE CORPORATION

- (1) Unless otherwise specifically provided for in any other Rule, the Corporation may give notice to a Clearing Member in such manner as the Corporation deems appropriate in the circumstances of the notice being given, including by telephone, by hand delivery, by fax and by Electronic Communication.
- (2) Each Clearing Member shall by notice in writing signed by a Clearing Member's Authorized Representative provide to the Corporation the names of at least two individuals and their positions for the purposes of telephone communications. The Corporation shall attempt to contact such individuals (or any other persons at the Clearing Member holding such positions) (the "**CDCC Contacts**") in connection with all telephone communications during Business Hours. If the CDCC Contacts are not available, the Corporation shall be entitled, during Business Hours, to provide telephone communications to any person answering the telephones at the Clearing Member. All telephone communications by the Corporation will be logged, electronically or manually, by the Corporation in one or more files ("**Notice Files**") kept for that purpose, recording the time and subject matter of the call, the individual at the Corporation who made the call and the individual at the Clearing Member who received the call. The Notice File, absent manifest error, shall be deemed to be correct.
- (3) Telephone communications given in accordance with Paragraph A-206(2) or in accordance with Subsection A-206(9) shall constitute full and proper notice notwithstanding the absence of any written or electronic confirmation of same.

- (4) The Corporation may from time to time prescribe the form of reports to be given by the Corporation to Clearing Members. These reports may be sent by hand delivery, fax or Electronic Communication.
- (5) Each Clearing Member shall maintain a computer system at the Clearing Member's designated office capable of obtaining, displaying and receiving Electronic Communications from the Corporation. Each Clearing Member shall have an obligation to review promptly each report, notice, instruction, data or other information made available by the Corporation to such Clearing Member through Electronic Communication. Each Clearing Member shall be responsible for advising the Corporation by telephone (confirmed in writing), fax or hand delivered notice on the Business Day on which a report is deemed to have been received or the Expiration Date of any item requiring change for any reason and the failure to report any such required change by such time shall constitute a waiver of the Clearing Member's right to have such item changed.
- (6) Upon the Corporation delivering or making available a notice or report in accordance with this Section A-206, the Corporation's obligation to furnish, issue or deliver such notice or report shall have been fulfilled.
- (7) Subject to Subsection A-206(9):
  - (a) a notice given by telephone shall be deemed to have been received by a Clearing Member as of and to be effective from the time of the telephone call to an individual in accordance with Paragraph A-206(2) or Subsection A-206(9), as the case may be, as recorded in the relevant Notice File, unless the notice or another Rule specifically provides otherwise;
  - (b) a notice given or report sent by fax shall be addressed to one or more of the CDCC Contacts and shall be deemed to have been received as of and, unless otherwise stated, to be effective from and after the time of the fax on the day it is sent, unless the notice or another Rule specifically provides otherwise;
  - (c) a notice or report given by Electronic Communication shall be addressed to one or more of the CDCC Contacts and shall be deemed to have been received on and to be effective as of the day it is sent, unless the notice or another Rule specifically provides otherwise; and
  - (d) a notice given by mail shall be addressed to one or more of the CDCC Contacts and shall be deemed to have been received and to be effective on the fifth day after mailing and a notice given or report sent by hand delivery shall be addressed to one or more of the CDCC Contacts and shall be deemed to have been received and to be effective on the earlier of when it actually is received by the Clearing Member and the next Business Day immediately following the date it was sent.
- (8) Where a notice is given or a report is sent by any means out of Business Hours or on a day that is not a Business Day, the notice or the report, as the case may be, shall be deemed to have been received on the earlier of
  - (a) the time the Corporation confirms it has actually been communicated to a responsible individual with the Clearing Member; and
  - (b) the beginning of the Business Hours on the next following Business Day.

For greater certainty, under Paragraph A-206(9)(b), where a notice is given or report is received prior to 9:00 a.m. on a Business Day, it shall be deemed to have been received not later than 9:15 a.m. on that Business Day. The Corporation shall maintain a list of emergency contact telephone and/or fax numbers of not less than three responsible individuals employed by each Clearing Member with whom the Corporation can communicate at all times during the Business Hours if the Corporation determines such communication is necessary or advisable. It shall be the responsibility of each Clearing Member to ensure that the individuals so selected can be readily contacted during all Business Hours, and that the contact numbers for them are kept current.

#### **Section A-207**

##### **PAYMENT OF FEES AND CHARGES**

- (1) The Corporation may levy such fees and charges related to such services provided to Clearing Members as it deems appropriate. All or any part of the proceeds from such levy may be applied to such purposes as the Corporation shall determine from time to time.
- (2) Fees and charges owing by a Clearing Member to the Corporation shall be due and payable within 30 days following the date of the invoice.

#### **Section A-208**

##### **FORCE MAJEURE OR EMERGENCY**

On the happening of a *force majeure* or an Emergency, the Corporation is entitled to take such action as it deems necessary and appropriate or require any Clearing Member to take such action as the Corporation may direct in respect of the same. In taking such action, the Corporation reserves the right, with regards to the settlement of a Transaction, to make a cash settlement in lieu of the delivery of the Underlying Interest.

#### **Section A-209**

##### **TIME**

All times herein are Eastern Time prevailing in Montreal and Toronto at the time of the event.

#### **Section A-210**

##### **DISTRIBUTION OF INFORMATION, CONFIDENTIALITY AND USE OF CDCC MATERIALS**

- (1) Clearing Member Information
  - (a) The Corporation may provide, on a confidential basis, any information regarding a Clearing Member to the Exchange(s) of which the Clearing Member is a member, the Clearing Member's applicable self-regulatory organization or regulatory or governmental agency, as the case may be, other clearing organizations of which the Clearing Member is a member, Market Centres, Delivery Agents, any Central Securities Depository, any Approved Custodian, any Acceptable Marketplace, the Corporation's auditors and any regulatory authority having jurisdiction over the Corporation, and such other persons and organizations as the Corporation may consider appropriate, when, in the opinion of the

Corporation, such information is relevant to the preservation of the integrity of the securities industry and derivative markets or the provision of such information is in the public interest.

- (b) The Corporation may also receive, on a confidential basis, any information regarding a Clearing Member from the Exchange(s) of which the Clearing Member is a member, the Clearing Member's applicable self-regulatory organization or regulatory or governmental agency, as the case may be, other clearing organizations of which the Clearing Member is a member, Market Centres, Delivery Agents, any Central Securities Depository, any Approved Custodian, any Acceptable Marketplace, the Corporation's auditors and any regulatory or governmental agency having jurisdiction over the Corporation, and such other persons and organizations as the Corporation may consider appropriate. Where in the opinion of the Corporation such information is relevant, the Corporation shall be entitled to rely upon such information for the purposes, among others, of Rule A-3, Financial Resilience Requirements.
- (c) Each Clearing Member, by virtue of its membership in the Corporation, is deemed to have authorized the Corporation to provide any information regarding the Clearing Member to the Exchange(s) of which the Clearing Member is a member, the Clearing Member's applicable self-regulatory organization or regulatory or governmental agency, as the case may be, other clearing organizations of which the Clearing Member is a member, Market Centres, Delivery Agents, any Central Securities Depository, any Approved Custodian, any Acceptable Marketplace, the Corporation's auditors and any regulatory or governmental agency having jurisdiction over the Corporation, and such other persons and organizations as the Corporation may consider appropriate provided that such other persons have an obligation to maintain the confidentiality of such information.
- (d) Each Clearing Member, by virtue of its membership in the Corporation, is deemed to have authorized the Corporation to receive any information regarding the Clearing Member from the Exchange(s) of which the Clearing Member is a member, the Clearing Member's applicable self-regulatory organization or regulatory or governmental agency, as the case may be, other clearing organizations of which the Clearing Member is a member, Market Centres, Delivery Agents, any Central Securities Depository, any Approved Custodian, any Acceptable Marketplace, the Corporation's auditors and any regulatory or governmental agency having jurisdiction over the Corporation, and such other persons and organizations as the Corporation may consider appropriate.
- (e) Each Clearing Member, by virtue of its membership in the Corporation, is deemed to have authorized the Corporation to release any information regarding the Clearing Member that is in a statistical summary or other format, provided the information does not specifically identify a particular Clearing Member.
- (f) The Clearing Member, by virtue of its membership in the Corporation, is deemed to have released the Corporation and each of its directors, officers and employees from any and all liability whatsoever which may arise by virtue of information being furnished to the Corporation or any organization considered appropriate, for such purposes, by the Corporation.

(2) Corporation Confidential Information

- (a) A Clearing Member will not disclose any Confidential Information to any person and will not copy, reproduce or store in a retrieval system or data base any Confidential Information except for such copies and storage as may be required by the Clearing Member for its own internal use when employing CDCS.
- (b) The Confidential Information will remain the exclusive property of the Corporation or the relevant third party.
- (c) A Clearing Member will take reasonable security measures and use reasonable care to protect the secrecy of, and to avoid the disclosure to or use by third parties of, Confidential Information.
- (d) Upon ceasing to be a Clearing Member or at any time upon the request of the Corporation, the Clearing Member will delete any Confidential Information from all retrieval systems and data bases or destroy same as directed by the Corporation and provide the Corporation with an officer's certificate attesting to such deletion or destruction.
- (e) For the purposes of this Subsection A-210(2), "**Confidential Information**" means all information relating to the Corporation, including all CDCC Material and any other information relating to CDCS such as trading data or procedures furnished by or on behalf of the Corporation to a Clearing Member, regardless of the manner in which it is furnished (whether oral or in writing or in any other form or media), but does not include:
  - (i) the Rules;
  - (ii) information that is already published or otherwise is or becomes readily available to the public, other than by a breach of the Rules;
  - (iii) information that is rightfully received by the Clearing Member from a third party not in breach of any obligation of confidentiality to the Corporation;
  - (iv) information that is proven to be known by the Clearing Member on a non-confidential basis prior to disclosure by the Corporation; or
  - (v) Information that is proven to be developed by the Clearing Member independent of any disclosure by the Corporation.

(3) Use of CDCC Materials

- (a) The Corporation grants each Clearing Member a limited, non-exclusive, revocable and non-transferable license to use CDCC Materials only for uses directly related to the Clearing Member's use of CDCS. The Clearing Member will not use CDCC Materials or any information obtained or derived from CDCC Materials except in accordance with this license. The Clearing Member acknowledges and agrees that all ownership right in the CDCC Materials belongs to the Corporation or its suppliers.

- (b) If a Clearing Member (with CDCC's permission) discloses CDCC Materials or any information obtained or derived from CDCC Materials to a client (including to any of its Affiliates) receiving services from a Clearing Member, the Corporation may require the Clearing Member to obtain an undertaking from such client to comply with Section A-210 in its use of CDCC Materials or any information obtained or derived from CDCC Materials.
- (c) Except as provided in Paragraphs (a) and (b) of this Subsection A-210(3), a Clearing Member will not: (i) copy or modify the CDCC Materials; (ii) sell, sublicense or otherwise transfer the CDCC Materials to any third party; (iii) reverse engineer or create derivative works based on the CDCC Materials; or (iv) use, disclose or communicate CDCC Materials or any information obtained or derived from CDCC Materials to or for the benefit of any third party or any Affiliate of the Clearing Member by any means whatsoever whether as a back-office service provider, outsourcer, or wholesaler to any third party or Affiliate of the Clearing Member or for the benefit of any joint venture or partnership to which the Clearing Member is a party.

## Section A-211

### NOTICE OF PROPOSED AMENDMENTS TO RULES

As required by law, the Corporation shall provide all Clearing Members with the text of any proposed rule change and a statement of its purpose and effect on Clearing Members. This Section A-211 shall not require the Corporation to provide Clearing Members with any proposed rule change in the cases where notice is not required by law including (i) the Corporation is of the opinion that an emergency requires the rule change without public consultation, (ii) the change is in respect of a new derivative, (iii) where the impact of a change on a Clearing Member is minor, (iv) the change pertains to a routine operational process or an administrative practice, (v) the change is intended for purposes of harmonization or compliance with an existing rule or with legislation, or (vi) the change corrects an error of form, a clerical error, a mistake in calculation or makes stylistic changes. The non-receipt by any Clearing Member of proposed rule changes under this Section A-211 shall not affect the validity, force or effect of any action taken by the Corporation pursuant thereto.

## Section A-212

### DEPOSITS AND WITHDRAWALS

- (1) General
  - (a) From time to time, each Clearing Member will be required to make payments, deposits or transfers of Cash, Securities, certificates, property, Underlying Interests, Underlying Interest Equivalents or other interests or rights (a "**Deposit**") to the Corporation under these Rules, to assure the performance of the obligations of such Clearing Member or to fulfil such Clearing Member's obligations to the Corporation hereunder.
  - (b) Each Deposit shall be deemed to have been made at the time that (i) the Deposit has been delivered to and accepted by the Corporation, (ii) where the Corporation has the authority or under these Rules is entitled to transfer or apply any monies, securities or position from any Clearing Member's account, whether such account is held at the Corporation or elsewhere, at the time such transfer or application is effected by the Corporation, or (iii) a



Put Escrow Receipt, a Call Underlying Interest Deposit or a Futures Underlying Interest Deposit has been accepted by the Corporation.

- (c) At the time of any Deposit hereunder, the Clearing Member shall indicate on the appropriate form filed with the Corporation the details and purpose of the Deposit.
- (2) Put Escrow Receipts, Call Underlying Interest Deposits or Futures Underlying Interest Deposits will be accepted only if the Approved Depository has agreed in writing in the form prescribed by the Corporation, that:
- (a) the Deposit has been received by such Approved Depository and is in Good Deliverable Form;
  - (b) the Deposit shall be immediately delivered to the order of the Corporation in accordance with the terms and conditions of a Depository Agreement made between such Approved Depository and the Corporation (i) with respect to a Put Escrow Receipt, on demand at any time during the period the Corporation holds the Put Escrow Receipt, and (ii) with respect to a Call Underlying Interest Deposit or Futures Underlying Interest Deposit, by being pledged to the Corporation through a Central Securities Depository during the life of the relevant call Option or Future;
  - (c) the Deposit shall remain (i) with respect to a Put Escrow Receipt, on deposit with the Approved Depository in trust for the Corporation until the Put Escrow Receipt is returned to the Approved Depository, or the Deposit is delivered to the order of the Corporation on demand in accordance with the relevant Put Escrow Receipt and the terms of the Depository Agreement; and (ii) with respect to a Call Underlying Interest Deposit or Futures Underlying Interest Deposit, on deposit with the Corporation through a Central Securities Depository until the Call Underlying Interest Deposit or Futures Underlying Interest Deposit is returned to the Approved Depository, or the Deposit is seized by the Corporation in accordance with the terms of the Depository Agreement; and
  - (d) the Corporation shall have the right to hold the Put Escrow Receipt, Call Underlying Interest Deposit or Futures Underlying Interest Deposit until the Corporation is satisfied, following the filing of a withdrawal request pursuant to this Section, that all Margin required has been deposited with the Corporation.
- (3) The Clearing Member shall deliver the Deposit to the Corporation (together with such covering forms as the Corporation may require), between the hours specified by the Corporation. Clearing Members shall ensure that at all times the Deposits are not held by them but by the Corporation or an Approved Depository.
- (4) A Deposit may be withdrawn by a Clearing Member between the hours specified by the Corporation; provided, however, that the Corporation may continue to hold a Deposit:
- (a) following the Expiration Date of the relevant Options until all obligations of the Clearing Member arising from the assignment of Exercise Notices have been performed; or
  - (b) following the acceptance of a Tender Notice until all obligations of the Clearing Member arising from the delivery of or payment for the Underlying Interest have been performed.



A Clearing Member seeking to withdraw a Deposit shall submit a duly completed withdrawal request in the form prescribed by the Corporation and must comply with the applicable notice requirements as set out in the Operations Manual.

- (5) Put Escrow Receipts, Call Underlying Interest Deposits and Futures Underlying Interest Deposits shall be deemed Underlying Interest Equivalents in accordance with Section A-706.
- (6) Deposits
  - (a) At the time of the delivery of a Deposit, the Clearing Member shall indicate on the appropriate form filed with the Corporation whether the Deposit is a 'bulk deposit' or a 'specific deposit'.
  - (b) A bulk deposit may be made in respect of any number of unspecified Option Short Positions or unspecified Futures Short Positions held in the account of the Clearing Member for which the Deposit is made.
  - (c) A specific deposit may be made only of Underlying Interest or Underlying Interest Equivalent held for the account of a named depositor in respect of a specified put or call Option Short Position or specified Futures Short Position held by the Clearing Member for such depositor. The Clearing Member shall maintain a record of each specific deposit, identifying the depositor, the account in which the Underlying Interest or Underlying Interest Equivalent is held and the specified positions for which the specific deposit has been made.
  - (d) No Underlying Interest or Underlying Interest Equivalent held for the account of a Client may be deposited hereunder in respect of a position in any account other than a Client Account. No Underlying Interest or Underlying Interest Equivalent held for any Market Maker may be deposited hereunder in respect of a position in any account other than such Market Maker Account.
  - (e) The Deposit hereunder by a Clearing Member of any Underlying Interest or Underlying Interest Equivalent held for the account of any Client may be made only to the extent permitted by applicable law, regulations and policies of the Corporation and shall constitute the certification of the Clearing Member to the Corporation that such Deposit does not contravene any provision of applicable law, regulations or policies of the Corporation.
  - (f) The Clearing Member shall not deposit hereunder more Underlying Interest or Underlying Interest Equivalent held for a Client Account than is fair and reasonable in light of the indebtedness of the Client to such Clearing Member and the Client's positions with the Clearing Member.
  - (g) The Corporation shall not use any Underlying Interest or Underlying Interest Equivalent in bulk deposit in a Client Account or a Market Maker Account, or the proceeds therefrom, to satisfy any obligation of the Clearing Member to the Corporation other than an obligation arising out of such Client Account or Market Maker Account.

(7) **Depository Receipts**

- (a) A Clearing Member may file a Depository Receipt issued by an Approved Depository (in the form approved by the Corporation) which certifies that the Underlying Interest or Underlying Interest Equivalent described therein is held by such Approved Depository in trust for the Corporation (in the case of a Put Escrow Receipt) or is pledged to the Corporation through a Central Securities Depository (in the case of a Call Underlying Interest Deposit or Futures Underlying Interest Deposit) on the instructions of a named depositor.
- (b) In the event any Short Position for which a Depository Receipt has been deposited is closed out by a Closing Purchase Transaction or by a Closing Buy Transaction, as the case may be, the Clearing Member making such Deposit may promptly request the withdrawal of the Depository Receipt evidencing such Deposit.
- (c) If a Clearing Member requests the withdrawal of a Depository Receipt issued in respect of a put or call Option or a Future while it is still outstanding, it may do so subject to satisfying the Margin requirement with respect thereof. When such Margin is deposited, the Corporation will release and return the Depository Receipt previously filed in respect of such put or call Option or Future, as the case may be.

**Section A-213**

**ACCOUNTS WITH FINANCIAL INSTITUTIONS**

Every Clearing Member shall designate an account or accounts established and maintained by it in a Canadian financial institution acceptable to the Corporation for each currency of the Transactions that it enters into.

**Section A-214**

**ELECTRONIC INTERFACES**

As many functions previously conducted by the movement of paper between the Corporation and Clearing Members are now, or will in the future be, executed by electronic transfers of data to and from the Corporation, the words “**access**”, “**deliver**”, “**furnish**”, “**instruct**”, “**issue**”, “**make available**”, “**notify**”, “**receive**”, “**submit**” and “**tender**” shall include, where appropriate, the movement of information by electronic means between the Corporation and a Clearing Member.

**Section A-215**

**LIABILITY**

- (1) Notwithstanding anything to the contrary in the Rules, all obligations of the Corporation described in the Rules are solely to its Clearing Member. For greater certainty, the Rules are not to be interpreted or construed to imply that the Corporation has any obligation to any Entity other than its Clearing Members. Without limiting the generality of the foregoing, the Corporation is also not liable for obligations of a non-Clearing Member, or of a Clearing Member to a non-Clearing Member, of a Clearing Member to another Clearing Member who is acting for it as an agent, or

obligations to a Client by a Clearing Member, nor shall the Corporation become liable to make deliveries to or accept deliveries from any such Entity.

- (2) Notwithstanding the fact that a Clearing Member may not be a member of an Exchange on which Options or Futures trade, such Clearing Member shall nonetheless be subject to the position limits, exercise limits and any risk limits established by such Exchange.
- (3) CDCS provides to Clearing Members, among other things, electronic data transmission services in connection with the acceptance and/or clearance of Transactions including, but not limited to, clearing and settlement, margining, holding of deposits and the preservation or communication of data in or through any computer or electronic data transmission system.
- (4) The Corporation shall not be required to perform any obligation under the Rules or make available CDCS nor shall it be held liable for any failure or delay in the performance of its obligations to any Clearing Member due to the unavailability of CDCS, if, as a result of *force majeure* or Emergency, it becomes impossible or impracticable to perform such obligation or make available CDCS, and where the Corporation could not, after using reasonable efforts (which would not require the Corporation to incur a loss other than immaterial, incidental expenses), overcome such impossibility or impracticability.
- (5) The Corporation shall not be liable to a Clearing Member for any direct or indirect or consequential loss, damage, loss of anticipated profit, loss of bargain, cost, expense, or other liability or claim suffered or incurred by or made against a Clearing Member as a result of the use by the Clearing Member of CDCS or any failure of CDCS or any act or omission of the Corporation, its directors, officers or employees, or members of any standing or ad hoc committee formed by the Corporation, regardless of whether such act or omission constitutes negligence. By making use of CDCS, Clearing Members expressly agree to accept any and all such loss, damage, cost, expense, or other liability or claim arising from the use of CDCS.
- (6) The Corporation shall not be liable to a Clearing Member for any indirect or consequential loss, damage, loss of anticipated profit, loss of bargain, cost, expense, or any other liability or claim suffered or incurred by or made against a Clearing Member as a result of the failure by the Corporation to pay a Settlement Amount owing in respect of a transaction, regardless of whether such failure constitutes negligence.
- (7) In the event any legal proceeding is brought by any person against the Corporation seeking to impose liability on the Corporation as a direct or indirect result of the use by a Clearing Member of CDCS, the Clearing Member shall reimburse the Corporation for:
  - (a) all expenses and legal fees incurred by the Corporation in connection with the proceeding;
  - (b) any award pronounced against the Corporation in any judgment in the event it is found to be liable; and
  - (c) any payment made by the Corporation, with the consent of the Clearing Member, in settlement of any such proceeding.

- (8) The exemption from liability of the Corporation set out in this Section A-215 shall not extend to, nor limit liability for damages caused through an intentional or gross fault as defined in Article 1474 of the Civil Code of Québec.

### **Section A-216**

#### **AUDITED STATEMENTS OF THE CORPORATION**

After they have been presented to the Board, the Corporation shall furnish at its expense to each Clearing Member one copy of:

- (a) the balance sheet forming part of its audited financial statements for such fiscal year, with accompanying notes related to the balance sheet;
- (b) the report of the Corporation's independent auditor thereon; and
- (c) the report of the Corporation's independent auditors on the suitability of the system of internal controls of the Corporation with the objectives of internal control stated by the Corporation pertaining to its:
  - (i) administration;
  - (ii) information technology;
  - (iii) trading/assignment/exercise; and
  - (iv) margin and collateral.

### **Section A-217**

#### **CORPORATION AS AGENT RE SETTLEMENT ACCOUNTS**

Each Clearing Member will establish a separate Canadian dollar bank account, and if a Clearing Member clears Options, Futures, or Options and Futures, a separate United States of America dollar Bank account, for settling Transactions in this currency (the "**Settlement Accounts**"). Each Clearing Member hereby appoints the Corporation to act as its agent, and the Corporation hereby accepts such appointment upon the terms and conditions hereof, solely for the purpose of effecting, on behalf of such Clearing Member, electronic payment instructions from the Settlement Accounts for the purpose of paying all amounts owing by the Clearing Member to CDCC. Nothing herein shall abrogate a Clearing Member's obligations hereunder to maintain sufficient funds in the Settlement Accounts for the purposes of ensuring complete and timely settlement of the Clearing Member's obligations hereunder.

### **Section A-218**

#### **WAIVER OF IMMUNITY**

Each Clearing Member irrevocably waives, with respect to itself and all of its revenues and assets, and each Limited Clearing Member, with respect to any pension plan or fund or compensation fund in respect of which it is acting and all revenues and assets of such pension plan or fund or compensation fund, all

immunity on the grounds of sovereignty or other similar grounds from suit, jurisdiction of any court, relief by way of injunction, order for specific performance or for recovery of property, attachment of its assets (whether before or after judgment) and execution or enforcement of any judgment to which it or its revenues or assets might otherwise be entitled in any proceedings in the courts of any jurisdiction, as well as from compensation or set-off, and irrevocably agrees that it will not claim any such immunity in any proceedings.

### **Section A-219**

#### **PARAMOUNTCY**

In the event of any conflict between the Operations Manual (including any Schedule to the Operations Manual) and these Rules (without reference to the Operations Manual), the terms and conditions of the Rules (without reference to the Operations Manual) will govern to the extent of such inconsistency.

### **Section A-220**

#### **GOVERNING LAW**

The Rules shall be governed by and construed in accordance with the laws of the province of Quebec and the federal laws of Canada applicable therein. Each Clearing Member, by virtue of its membership in the Corporation, attorns to the jurisdiction of the courts of Quebec.

The term “**pledge**” (and any correlative term) in the Rules and any Application for Membership includes a security interest and hypothec and any provision whereby a pledge is or shall be granted includes the grant of a security interest and hypothec.

### **Section A-221**

#### **CONTACT INFORMATION**

Each Clearing Member shall, upon admission as a Clearing Member and, promptly following any change in such information, communicate to the Corporation the names and full contact information for its Clearing Member Level 1, Clearing Member Level 2 and Clearing Member Level 3 contacts, as set forth in the Operations Manual.

### **Section A-222**

#### **APPROVED SECURITIES INTERMEDIARY**

- (1) An Approved Securities Intermediary is a financial institution that meets the following criteria:
- (a) It is (i) a trust company to which the *Trust and Loan Companies Act* (Canada) applies or subject to the *Loan and Trust Corporations Act* (Ontario) or an *Act Respecting Trust Companies and Savings Companies* (Quebec) or equivalent legislation of other provinces of Canada, or (ii) such other institution as the Board may, in its sole discretion, approve from time to time;
  - (b) It has a minimum capital of \$25,000,000, for which current audited financial statements are available;

- (c) It is a full member participant in good standing with CDS;
  - (d) It is not subject to bankruptcy, insolvency, winding-up or restructuring proceedings and no administration, receiver manager, trustee or person with similar power has been appointed in connection with the entity; and
  - (e) It is party to an agreement with a Clearing Member pursuant to which (i) the Corporation may, on an annual basis, require the Corporation's auditor to make any general or special examination of the financial affairs of the Approved Securities Intermediary or to report upon the whole or any aspect of the business or affairs thereof; (ii) the Corporation's auditor, for the purpose of this special examination shall be entitled to request from the Approved Securities Intermediary, or its auditors, any information or items which the auditors believe to be relevant to any transactions directly or indirectly related to the business of the Corporation and no person, Approved Securities Intermediary, or Clearing Member shall withhold, conceal, destroy or refuse to give any such information or items reasonably required by the Corporation's auditors for the purpose of this examination; and (iii) an Approved Securities Intermediary must provide any information or items requested by the Corporation's auditor within the time period specified on the request.
- (2) In the event that Margin Deposits are made through an Approved Securities Intermediary in accordance with these Rules, the Corporation shall not be liable for any direct or indirect or consequential loss, damage, loss of anticipated profit, loss of bargain, cost, expense, or other liability or claim suffered or incurred by or made against a Clearing Member as a result of the use by the Clearing Member of an Approved Securities Intermediary or any failure of an Approved Securities Intermediary. By making use of an Approved Securities Intermediary, Clearing Members expressly agree to accept any and all such loss, damage, cost, expense, or other liability or claim arising from the use of an Approved Securities Intermediary.

### **Section A-223**

#### **APPROVED DEPOSITORY**

- (1) The Corporation may accept that Deposits be made through an Approved Depository in accordance with these Rules on the basis that the Approved Depository is an Approved Securities Intermediary that meets the following additional criteria:
- (a) It enters into a Depository Agreement with the Corporation in form acceptable to the Corporation;
  - (b) It enters into an agreement with the depositor (either a Clearing Member or a client of a Clearing Member) wishing to make Deposits in the form of Cash to be held in trust for the Corporation and certified by Put Escrow Receipts, and/or Call Underlying Interest Deposits and/or Futures Underlying Interest Deposits to be pledged to the Corporation through a Central Securities Depository pursuant to Section A-706, which agreement shall clearly set forth the conditions under which the Approved Depository will handle such Deposits, issue Depository Receipts and honour the Corporation's demands for release in respect of Put Escrow Receipts, consistent with the terms of the Depository Agreement;

- (c) It holds each Deposit that is the object of a Put Escrow Receipt as custodian for the account of the depositor in trust for the Corporation with the express authority from the depositor to act in such capacity in respect of a specific put Option;
- (d) It holds each Deposit that is the object of a Put Escrow Receipt free from liens or encumbrances and does not subject it or any part of it to any right (including any right of set-off), charge, security interest, lien or claim of any sort in its own or in any third party's favour;
- (e) It is duly authorized by the depositor to release a Deposit that is the object of a Put Escrow Receipt in favour of the Corporation in accordance with the terms of the Depository Agreement;
- (f) It pledges on behalf of the depositor each Deposit that is the object of a Call Underlying Interest Deposit to the Corporation through a Central Securities Depository with the express authority from the depositor to effect such pledge of the relevant Underlying Interest in respect of a specific call Option;
- (g) It pledges on behalf of the depositor each Deposit that is the object of a Call Underlying Interest Deposit free from liens or encumbrances and does not subject it or any part of it to any right (including any right of set-off), charge, security interest, lien or claim of any sort in its own or any third party's favour;
- (h) It pledges on behalf of the depositor each Deposit that is the object of a Futures Underlying Interest Deposit to the Corporation through a Central Securities Depository with the express authority from the depositor to effect such pledge of the relevant Underlying Interest in respect of a specific Future; and
- (i) It pledges on behalf of the depositor each Deposit that is the object of a Futures Underlying Interest Deposit free from liens or encumbrances and does not subject it or any part of it to any right (including any right of set-off), charge, security interest, lien or claim of any sort in its own or any third party's favour.

#### Section A-224 APPROVED CUSTODIAN

- (1) The Corporation may accept that a Clearing Member satisfies the Margin requirements pursuant to Rule A-7 Margin Requirements by depositing all Margin required to be deposited through an Approved Custodian in accordance with these Rules on the basis that the Approved Custodian is an Approved Securities Intermediary that meets the following additional criteria:
  - (a) It enters into an Account Control Agreement with the Clearing Member and the Corporation in form acceptable to the Corporation, which agreement shall clearly set forth the conditions under which the Approved Custodian shall hold the securities pledged by the Clearing Member to the Corporation, subject to the control (within the meaning of the *Securities Transfer Act, 2006* (Ontario) as in effect from time to time (the "STA")) of the Corporation, and comply with the Corporation's instructions, including notice of exclusive control, consistent with the terms of the Account Control Agreement and the Rules; and



- (b) It accepts that the Corporation shall have control within the meaning of the STA over each deposit made by the Clearing Member into the account subject to the Account Control Agreement free from liens or encumbrances and does not subject it or any part of it to any right (including any right of set-off), charge, security interest, lien or claim of any sort in its own or any third party's favour.
- (2) Notwithstanding anything to the contrary contained in the Rules or in the Account Control Agreement between the Corporation and a Clearing Member, the Corporation shall not deliver a notice of exclusive control (as defined in the applicable Account Control Agreement) or entitlement order (within the meaning of the STA) to an Approved Custodian pursuant to the terms of such Account Control Agreement (other than an entitlement order given jointly by the Corporation and the Clearing Member for the withdrawal by such Clearing Member of collateral other than income contained in the account subject to the Account Control Agreement), unless such Clearing Member is suspended in accordance with Section A-1A05; and, in connection with a notice of exclusive control that has been delivered in connection with an Account Control Agreement, if the Clearing Member is no longer suspended, the Corporation shall promptly deliver notice rescinding such notice of exclusive control to the Approved Custodian in accordance with the Account Control Agreement.

## **RULE A-3**

### **FINANCIAL RESILIENCE REQUIREMENTS**

#### **Section A-301**

##### **MINIMUM CAPITAL REQUIREMENTS**

- (1) This Section A-301 is not applicable to Limited Clearing Members.
- (2) 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;
  - (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 to a Bank Clearing Member, for a Financial Institution Clearing Member.
- (3) Every Clearing Member shall file with the Corporation, on request, a report covering the computation of the capital requirements.
- (4) A Fixed Income Clearing Member, in spite of Subsection A-301(2), 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(4), “**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(4), “**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-302 FINANCIAL RESILIENCE

No Transaction shall be cleared by the Corporation for any Clearing Member to which Section A-301 applies from the time the Corporation acquires actual knowledge that such Clearing Member does not meet the minimum capital adequacy requirements prescribed in Section A-301.

No Transaction shall be cleared by the Corporation for any Limited Clearing Member from the time the Corporation acquires actual knowledge that such Limited Clearing Member does not meet the minimum ongoing financial resilience requirements prescribed in Section A-1B05.

## Section A-303 EARLY WARNING

- (1) A Clearing Member to which Section A-301 applies 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.
- (2) A Limited Clearing Member shall notify the Corporation immediately if such a Clearing Member has any indication or suspicion that it may not meet the minimum ongoing financial resilience requirements prescribed in Section A-1B05.
- (3) 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).
- (4) 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.
- (5) 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.

- (6) A Limited Clearing Member shall advise the Corporation immediately if such Limited Clearing Member fails to maintain its Designated Eligibility Rating or Designated Maintenance Rating; or its Replacement Eligibility Metric or Replacement Maintenance Metric, as applicable.

#### **Section A-304**

##### **AUDITS**

- (1) The Corporation has the authority to inspect the books and records of Clearing Members and may require any Clearing Member and any responsible representative of such Clearing Member to appear personally before the Corporation and produce its books and records and answer questions deemed reasonably necessary by the Corporation regarding any actual or alleged violation of the Rules.
- (2) Unless otherwise agreed to by the Corporation, the audit of the financial statements of a Clearing Member will take place on the fiscal year-end of such Clearing Member.
- (3) The audit of the financial statements of a Clearing Member shall be conducted in accordance with generally accepted auditing standards and shall include a review of the accounting system, the internal accounting control and procedures for safeguarding securities. It shall include all audit procedures necessary under the circumstances to support the opinions which must be expressed to meet all legal and regulatory requirements applicable to such Clearing Member.
- (4) Clearing Members shall cause their auditors to also comment on any material inadequacies found to exist in the accounting system, the internal accounting control or in the procedures for safeguarding securities and shall indicate any corrective action the Clearing Member has taken or which it proposes to implement and shall provide copies of these comments to the Corporation.

#### **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 promptly after 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 promptly after 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's 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 promptly after such documents are provided to the Regulatory Body.

- (4) Each Limited Clearing Member shall deliver to the Corporation one copy of the annual audited financial statements prescribed by the governmental agency or the pension regulator having jurisdiction promptly after such documents are provided to such agency or regulator. In the case of a Limited Clearing Member which is a pension plan board, it shall additionally deliver to the Corporation one copy of the annual information return prescribed by its pension regulator promptly after such return is provided to its pension regulator.

### **Section A-306**

#### **SPECIAL EXAMINATIONS**

- (1) The Corporation may at any time require the Corporation's auditor to make any general or special examination of the financial affairs of any Clearing Member or to report upon the whole or any aspect of the business or affairs thereof.
- (2) The Corporation's auditor for the purpose of this special examination shall be entitled to request from the Clearing Member, or its auditors, any information or items which the auditors believe to be relevant to any transactions directly or indirectly related to the business of the Corporation and no person or Clearing Member shall withhold, conceal, destroy or refuse to give any such information or items reasonably required by the Corporation's auditors for the purpose of this examination. A Clearing Member must provide any information or items within a reasonable time following a reasonable request by the Corporation's auditor.

### **Section A-307**

#### **BOARD ACTION RELATING TO FINANCIAL RESILIENCE DEFICIENCY CONCERNS**

- (1) If the Board determines as a result of any early warning notice under Section A-303, filing under Section A-304 or A-305, general or special examination under Section A-306, or from any other information given to or obtained by it, including from an appropriate self-regulatory organization or regulatory agency, that a Clearing Member to which Section A-301 applies does not have minimum capital satisfying the requirements referred to in Section A-301, that a Limited Clearing Member does not meet the ongoing financial resilience requirements prescribed in Section A-1B05, or that a Clearing Member otherwise is in or is believed by the Board in its sole discretion to be in, such financial condition that the Board in its sole discretion deems it is undesirable in the public interest or in the interest of the Corporation that the Corporation continue to accept and/or clear such Clearing Member's Transactions, the Board pursuant to Rule A-1A may at any time suspend such Clearing Member concerned for such period and on such terms and conditions as the Board may determine and notice thereof shall be issued promptly to other Clearing Members in accordance with Section A-1A06.
- (2) The Board may as an alternative determine that it is in the interest of the public or in the interest of the Corporation that the Corporation continue to accept and/or clear such Clearing Member's Transactions but that the Corporation's auditors should regulate and generally supervise the operations of the Clearing Member, as they relate to its activities or performance as a Clearing



Member, for such period and in such manner as the Corporation may direct. Notice thereof shall be issued promptly to other Clearing Members.

- (3) Any examination, report or supervision required by the Corporation pursuant to this Rule A-3 shall be conducted at the expense of the Clearing Member involved.

## **RULE A-4 ENFORCEMENT**

### **Section A-401 ACTION AGAINST A NON-CONFORMING OR SUSPENDED MEMBER**

- (1) The actions contemplated by the Rules in respect of a Non-Conforming Member or suspended Clearing Member may be taken in any sequence the Corporation deems appropriate.
- (2) In addition to a measure made available to the Corporation under the Rules and the Application for Membership to remedy a specific or general default of a Clearing Member, where a Clearing Member is a Non-Conforming Member, the Corporation may take any one of the actions prescribed by the Rules in respect of such Clearing Member including, but not limited to:
  - (a) prohibiting and/or imposing limitations on the acceptance and/or clearance of Transactions by such Clearing Member;
  - (b) increasing the Margin Requirements for such Clearing Member or requiring additional Margin Deposits;
  - (c) requiring such Clearing Member to reduce or close out (or closing out on behalf of such Clearing Member) existing Transactions in such Clearing Member's accounts with the Corporation and, upon such close out, converting all amounts into Canadian currency and calculating one net amount (taking into account the Corporation's rights with respect to the Margin Deposit of such Clearing Member) owing to such Clearing Member by the Corporation or by such Clearing Member to the Corporation;
  - (d) transferring, whether by way of transfer, by way of assignment, by way of termination, close-out and re-establishment or otherwise, any Client Account maintained by such Clearing Member with the Corporation, any position maintained in such account and any Margin Deposits held by the Corporation in respect of such account, to another Clearing Member;
  - (e) sanctioning, reprimanding, fining or imposing a penalty on the Clearing Member;
  - (f) preventing or restricting the Clearing Member's right to withdraw any excess in Margin Deposits pursuant to Section A-607 or Section A-704; and
  - (g) suspending the Non-Conforming Member.
- (3) Upon the suspension of the Clearing Member and in addition to a measure made available to the Corporation under Subsection A-401(2) or other provisions under the Rules, the Corporation may take any one of the actions prescribed by the Rules in respect of such Clearing Member including, but not limited to:
  - (a) applying the Margin Deposit (including, without limitation, Margin and Clearing Fund) of the suspended Clearing Member against the obligations of such Member to the Corporation, subject to Subsection A-402(3) and, for such purpose, selling, transferring,



using or otherwise dealing or disposing of, or terminating under an Account Control Agreement authorizations to deal with, any property deposited as Margin Deposit at any time, without prior notice to the Clearing Member;

- (b) transferring, terminating, closing out or liquidating any or all of the Clearing Member Transactions or Open Positions, and upon such close out, converting all amounts into Canadian currency and calculating one net amount (taking into account the Corporation's rights with respect to the Margin Deposit of such Clearing Member) owing to such Clearing Member by the Corporation or by such Clearing Member to the Corporation.
- (4) Before exercising any actions contemplated under this Section A-401, however, the Corporation will enter into consultations with the Bank of Canada and specify the actions it considers exercising with respect to the Non-Conforming Member or suspended Clearing Member who may be affected by an order under subsection 39.13(1) of the *Canada Deposit Insurance Corporation Act* or the Affiliates of such Clearing Member.

## Section A-402

### CREATION OF LIQUIDATING SETTLEMENT ACCOUNT

- (1) Upon the suspension of a Clearing Member, the Corporation may convert to cash all Margin Deposits with the Corporation by such Clearing Member in all accounts (including Securities held in bulk deposit but excluding Securities held in specific deposit). For purposes of making any such conversion to cash of Margin Deposits, the Corporation may sell, transfer, use or otherwise deal or dispose of any property deposited as Margin Deposit at any time, without prior notice to such Clearing Member. These and all other funds of the suspended Clearing Member subject to the control of the Corporation shall be placed by the Corporation in a special account, to be known as the Liquidating Settlement Account, for the purposes hereinafter specified.
- (2) Notwithstanding the provisions of Subsection A-402(1), if the Corporation shall determine in its sole discretion, taking into account the size and nature of a suspended Clearing Member's Margin Deposits, the market condition prevailing at the time, the potential market effects of liquidating transactions that might be directed by the Corporation, and such other circumstances that the Corporation deems relevant, that the conversion to cash of some or all of the suspended Clearing Member's Margin Deposits would not be in the best interest of the Corporation, other Clearing Members or the general public, such deposits need not be converted to cash, provided that any determination made pursuant to this Subsection shall be reported to the Board within 24 hours.
- (3) Notwithstanding the provisions of Subsection A-402(1) and Subsection A-402(2), Margin Deposits with respect to a Client Account shall only secure the performance by the Clearing Member of its obligations in respect of that Client Account, and Margin Deposits with respect to a Market Maker Account shall only secure the performance by the Clearing Member of its obligations in respect of that Market Maker Account; provided, however, that if the Clearing Member does not identify its Deposits with respect to each of its accounts, the Corporation shall use Margin Deposits without distinction as securing all the obligations of the Clearing Member in respect of all its accounts.

## **Section A-403**

### **PENDING TRANSACTIONS**

- (1) Transactions submitted by a Clearing Member after it has been suspended shall be accepted or rejected by the Corporation in accordance with the regulations, rules and policies of the Exchange or Acceptable Marketplace on which they took place, and in the event that an Exchange Transaction is rejected, it shall be closed by the Clearing Member thereto in accordance with the Rules or in accordance with the regulations, rules and policies of the Exchange or Acceptable Marketplace on which the transaction was effected.
- (2) With respect to Open Positions and accepted Transactions:
  - (a) monies payable to the suspended Clearing Member in Settlement of Gains and Losses and/or Mark-to-Market Valuation in the Client Account shall be deposited by the Corporation in a Clients Settlement Account for remittance to the suspended Clearing Member or its representative for distribution to the persons entitled thereto in accordance with applicable law;
  - (b) monies payable to the suspended Clearing Member in Settlement of Gains and Losses in the respective Market Maker Accounts shall be held in such accounts pending the closing of all Open Positions and transactions in such accounts for application in accordance with the applicable Market Maker Account agreement;
  - (c) monies payable to the suspended Clearing Member in Settlement of Gains and Losses and/or Mark-To-Market Valuation in the Firm Account shall be credited by the Corporation to the Liquidating Settlement Account;
  - (d) monies owed to the Corporation in Settlement of Gains and Losses and/or Mark-To-Market Valuation in any account shall be withdrawn by the Corporation from the Liquidating Settlement Account;
  - (e) monies owed to the Corporation in Settlement Amounts for settlements not yet paid, will remain in the Liquidating Settlement Account in the form of Margin Deposits until the next available Settlement Time consistent with the Transaction from which the Settlement Amounts were derived; and
  - (f) monies payable to the suspended Clearing Member in Settlement Amounts for settlements not yet paid, will remain in the Liquidating Settlement Account in the form of Margin Deposits until the next available Settlement Time consistent with the Transaction from which the Settlement Amounts were derived.

## **Section A-404**

### **OPEN POSITIONS**

- (1) Open Positions of a suspended Clearing Member may, in the Corporation's sole discretion, be closed by the Corporation at such price as the Corporation deems reasonable, transferred to another Clearing Member in accordance with the auction process set forth in the Operations Manual, or maintained by the Corporation. Amounts payable to the Corporation in Settlement of Gains and

Losses and/or Mark-to-Market Valuation, as a result of closing transactions effected by the Corporation shall be withdrawn from the suspended Clearing Member's Liquidating Settlement Account; provided, however, that amounts payable to the Corporation in Settlement of Gains and Losses in a Market Maker Account shall first be withdrawn from the funds available in such account and only the amount of any deficit therein shall be withdrawn from the Liquidating Settlement Account. Amounts receivable by the suspended Clearing Member in Settlement of Gains and Losses and/or Mark-to-Market Valuation as a result of a closing transaction effected by the Corporation or the transfer of an Open Position shall be credited to the suspended Clearing Member's Liquidating Settlement Account. Clients affected by any closing or transfer of an Open Position shall be notified as promptly as possible.

(2) With respect to Options:

- (a) Open Long Positions in the Client Account of a suspended Clearing Member shall be maintained by the Corporation. The Corporation shall promptly use its best efforts to identify each Client having a Long Position in such account, to transfer each such Client's Long Position to another Clearing Member, and to notify each such Client of such transfer; in the event that notwithstanding the best efforts of the Corporation any Long Position in a Client Account of a suspended Clearing Member cannot promptly be transferred to another Clearing Member, such Long Position may be closed by the Corporation in the most orderly manner practicable and the proceeds shall be deposited in a Clients Settlement Account;
- (b) Open Long Positions in any Market Maker Account of a suspended Clearing Member shall be closed by the Corporation in the most orderly manner practicable and the proceeds of such closing transactions shall be held in such account pending the closing out of all Open Positions and transactions for application in accordance with the applicable Market Maker Account agreement;
- (c) Open Long Positions in a suspended Clearing Member's Firm Account shall be closed by the Corporation in the most orderly manner practicable, and the proceeds of such closing transactions shall be credited by the Corporation to the suspended Clearing Member's Liquidating Settlement Account; and
- (d) Open Short Positions in any account of a suspended Clearing Member may, in the Corporation's sole discretion, be closed by the Corporation at such price as the Corporation deems reasonable, transferred to another Clearing Member, or maintained by the Corporation. Amounts payable to the suspended Clearing Member in settlement of Closing Purchase Transactions effected by the Corporation shall be withdrawn from the suspended Clearing Member's Liquidating Settlement Account; provided, however, that amounts payable to the suspended Clearing Member in settlement of Closing Purchase Transactions in a Market Maker Account shall first be withdrawn from the funds available in such account and only the amount of any deficit therein shall be withdrawn from the Liquidating Settlement Account. Clients affected by any closing or transfer of a Short Position, if known to the Corporation, shall be notified as promptly as possible.

(3) If the Corporation elects or is required pursuant to this Section A-404 to close both Long Positions and Short Positions in the same series of Options or Futures or Fixed Income Transactions with respect to the same Acceptable Security or OTCI options carried by a suspended Clearing Member,

the Corporation may, close such positions through closing transactions on an Exchange (in the case of Options and Futures only) or offset such positions against each other, reducing the Open, Long and Short Positions of the Clearing Member in such series by the same number of Option contracts or Futures contracts or reducing the open position of the Clearing Member in Fixed Income Transactions with respect to the same Acceptable Security or in OTCI options. If the Corporation closes positions in any series of Options or Futures or Fixed Income Transactions with respect to the same Acceptable Security or OTCI options by offset pursuant to the foregoing sentence, the Corporation shall notify the suspended Clearing Member or its representative thereof, and such positions shall be deemed to have been closed at a price equal to the closing Market Price as determined by the Exchange involved for such series on the date when the positions were offset in the case of Options or Futures or at a price determined by the Corporation in the case of Fixed Income Transactions with respect to the same Acceptable Security or OTCI options.

- (4) Notwithstanding the provisions of Subsection A-404(3), if the Corporation, through an officer or designated representative, shall determine in its sole discretion, taking into account the size and nature of a suspended Clearing Member's positions, the market conditions prevailing at the time, the potential market effects of liquidating Transactions that might be directed by the Corporation, and such other circumstances as the Corporation deems relevant, that the closing out of some or all of the suspended Clearing Member's Transactions would not be in the best interests of the Corporation, other Clearing Members or the general public, such positions need not be closed out, provided that any determination made pursuant to this Subsection shall be reported to the Board within 24 hours.
- (5) If the Corporation, through an officer or its other designated representative shall:
  - (a) determine that the Corporation is unable, for any reason, to close out in a prompt and orderly fashion, any Transactions or to convert to cash any Margin Deposits of a suspended Clearing Member, or
  - (b) elect pursuant to Subsection A-404(4) not to close out any such Transactions or pursuant to Subsection A-402(2) not to convert to cash any such Margin Deposits, the Corporation may authorize the execution from time to time for the account of the Corporation, solely for the purpose of reducing the risk to the Corporation resulting from the continued maintenance of such positions or the continued holding of such Margin Deposits, of hedging transactions, including, without limitation, the purchase or sale of Underlying Interests or interests deemed similar thereto or Transactions on any such Underlying Interests or similar interests. The Corporation may delegate to specified officers or agents of the Corporation the authority to determine, within such guidelines, if any, as the Corporation may prescribe, the nature and timing of such hedging transactions. Any authorizing of hedging transactions shall be reported to the Board within 24 hours, and any such transactions that are executed shall be reported to the Board on a daily basis. Hedging transactions effected for the account of the Corporation pursuant to this Paragraph shall be closed out or exercised promptly as the positions to which they relate are eliminated, whether by expiration, transfer, close out or assignment. Any cost or expenses, including losses sustained by the Corporation in connection with Transactions effected for its account pursuant to this Paragraph shall be charged to the Liquidating Settlement Account of the suspended Clearing Member, and any gains realized on such Transaction shall be credited to such Liquidating Settlement Account; provided, however, that costs, expenses and gains related to the hedging of positions in a Market Maker Account or a Client Account shall

be charged or credited, as the case may be, to that account, and only the excess, if any, of such costs and expenses over the funds available in that account shall be charged to the Liquidating Settlement Account. Reasonable allocations of costs, expenses and gains among accounts made by the Corporation for the purpose of implementing the proviso to the preceding sentence shall be binding on the Clearing Member and any persons claiming through the Clearing Member and the respective successors and assigns.

#### **Section A-405**

#### **EXERCISED OPTIONS AND TENDER NOTICES**

Unless the Corporation stipulates otherwise in a particular case, exercised Options to which a suspended Clearing Member is a party or Futures which have been the subject of Tender Notice to which a suspended Clearing Member is a party shall be closed through the procedures set forth in Sections B-404, B-405, C-510 and C-511, respectively, except that the Corporation may decide not to buy-in or sell-out, as the case may be, in the event that the Corporation is informed that the Underlying Interest is in transit or transfer. All losses and gains on such buy-ins and sell-outs shall be paid from or credited to, as the case may be, the Liquidating Settlement Account of the suspended Clearing Member; provided, however, that all losses on such buy-ins and sell-outs in a Market Maker Account shall first be paid from such account to the extent there are funds available in such account and only the amount of any deficit therein shall be paid from the Liquidating Settlement Account.

#### **Section A-406**

#### **AMOUNTS PAYABLE TO THE CORPORATION**

The Corporation shall be entitled promptly to recover from a suspended Clearing Member, any amount payable to the Corporation in accordance with these Rules, including all costs and expenses, including legal expenses, incurred by the Corporation, from such Clearing Member's Liquidating Settlement Account with the Corporation upon completion of the liquidation of such Clearing Member's positions in accordance with this Rule A-4.

#### **Section A-407**

#### **MEMBER CLAIMS**

All claims upon the Liquidating Settlement Account of a suspended Clearing Member by other Clearing Members resulting from losses incurred when closing pending transactions, or closing Open Positions or in the delivery of Underlying Interests or buying in or selling out exercised Options in accordance with this Rule A-4 shall be filed with the Corporation in the form prescribed. Such claims shall be paid as follows:

- (1) Claims for losses incurred when closing pending transactions with a suspended Clearing Member that are rejected for clearance shall be subordinate to all other claims upon the Liquidating Settlement Account. The Corporation shall pay such claims, to the extent funds are available, from the Liquidating Settlement Account of the suspended Clearing Member only after payment of all other applicable claims, and such claims shall not constitute a claim upon the Clearing Fund contributions of other Clearing Members; and

- (2) Claims for losses incurred on buy-ins and sell-outs, and the closing of Open Positions, shall be senior to all other claims upon the Liquidating Settlement Account. If a buy-in, sell-out or closing transaction does not occur by the close of the first full Business Day immediately following the issuance of the notice of suspension, the claim thereon shall be limited to the amount that would have been recoverable if, in the case of a buy-in or sell-out, the buy-in had been made at the highest price or the sell-out at the lowest price at which the Underlying Interest traded in the market in which it trades, on the first full Business Day or, in the case of the closing of Open Positions, if the positions had been closed by the close of the first full Business Day.

#### Section A-408 NO WAIVERS

No failure by the Corporation to exercise, nor any delay on its part in exercising, any of its rights (in whole or in part) under these Rules shall operate as a waiver of the Corporation's rights or remedies upon that or any subsequent occasion, nor shall any single or partial exercise of any right or remedy prevent any further exercise thereon or any other right or remedy.

#### Section A-409 CLEARING MEMBER CLOSE-OUT RIGHTS

- (1) The provisions of this Section A-409 apply to all Transactions. In the event of any inconsistency between the provisions of this Section A-409 and the other provisions of the Rules, the provisions of this Section A-409 will prevail.
- (2) The occurrence of either of the following events in respect of CDCC will constitute an event of default (an "**Event of Default**"):
  - (a) an Insolvency Event within the meaning of Paragraph A-409(3)(a); and
  - (b) a Failure to Pay within the meaning of Subsection A-409(4).
- (3)
  - (a) An "**Insolvency Event**" occurs if:
    - (i) CDCC commences an Insolvency Proceeding with respect to it or an Insolvency Proceeding is commenced with respect to CDCC; provided, however, that an "Insolvency Event" will not occur if a Clearing Member institutes any action as a result of a Failure to Pay by CDCC which results in the commencement of an Insolvency Proceeding;
    - (ii) any regulatory or governmental authority having jurisdiction over CDCC in Canada (a "**Competent Authority**") institutes any action which results in the commencement of an Insolvency Proceeding; or
    - (iii) a Competent Authority takes any action under any derivatives, securities, payment or clearing or similar law of Canada (or any province or territory thereof) which



prevents CDCC from performing when due its payment or delivery obligations to Clearing Members under the Rules.

- (b) Each Clearing Member agrees to not institute any action as a result of a Failure to Pay by CDCC which may result in the commencement of an Insolvency Proceeding with respect to CDCC.
- (c) “**Insolvency Proceedings**” means proceedings for the purpose of liquidating, restructuring or reorganizing the assets and liabilities of CDCC under the *Bankruptcy and Insolvency Act* (Canada) (“**BIA**”), under the *Companies’ Creditors Arrangement Act* (Canada) (“**CCAA**”), under a court-supervised interim receivership under the BIA, or under a court-supervised receivership in accordance with rules of the common law or other laws of general application relative to the powers of the courts.
- (d) For the purposes of the Rules, Insolvency Proceedings shall be deemed to commence at the following times:
  - (i) bankruptcy proceedings under the BIA commence on the day that (A) CDCC files an assignment in bankruptcy; (B) a bankruptcy order is made in respect of CDCC; or (C) in connection with proposal proceedings, CDCC is deemed to have made an assignment in bankruptcy, including (i) if CDCC gives notice of intention to file a proposal but no cash flow statement as required by the BIA or no proposal is filed within the applicable time period allowed following the notice of intention to file a proposal, which is the date that the applicable time period expires, (ii) if a filed proposal is rejected by creditors, which is the date that the creditors refuse the proposal, or (iii) if an approved proposal is later annulled by the court, which is the date of the annulment order;
  - (ii) proposal proceedings under the BIA commence on the day the notice of intention to file a proposal is made or, if no notice is made, on the day the proposal is filed;
  - (iii) proceedings under the CCAA commence on the day that a court makes an order under the CCAA with respect to the affairs of CDCC; and
  - (iv) court-supervised receivership proceedings commence on the day that the court makes an order placing the assets of CDCC under the control of its interim receiver, receiver or receiver-manager.
- (4) A “**Failure to Pay**” means:
  - (a) a Payment Default within the meaning of Subsection A-409(5); or
  - (b) a Non-Payment of the Cash Settlement Amount following a Delivery Default within the meaning of Subsection A-409(6).
- (5) A “**Payment Default**” occurs if:
  - (a) CDCC fails to make when due any payment (including a payment under Subsection A-804(5) but excluding a payment of a Cash Settlement Amount following a Delivery Default



under Subsection A-409(6)) in respect of a payment claim of a Clearing Member against CDCC under a Transaction;

- (b) such Clearing Member notifies CDCC in writing of such failure (a “**Payment Request**”);
  - (c) CDCC’s failure to make such payment to such Clearing Member continues for a period of more than 30 days after the date of the Payment Request; and
  - (d) such Clearing Member is neither a Non-Conforming Member nor a suspended Clearing Member.
- (6)
- (a) A “**Non-Payment of the Cash Settlement Amount following a Delivery Default**” occurs if a Delivery Default occurs within the meaning of paragraph A-409(6)(b) and a Cash Settlement Payment Default also occurs within the meaning of paragraph A-409(6)(c).
  - (b) A “**Delivery Default**” occurs if:
    - (i) CDCC fails to perform, when due, any delivery obligation to a Clearing Member arising from any Transaction other than a Failed Delivery pursuant to Subsection A-804(2);
    - (ii) such Clearing Member has requested CDCC in writing to fulfill such delivery obligation (a “**Delivery Request**”);
    - (iii) after the expiry of a period of not less than 30 days following the date of the Delivery Request, if CDCC’s failure to perform is continuing, the affected Clearing Member requests in writing a cash settlement amount determination of the unsatisfied delivery obligation from the Calculation Agent (a “**Cash Settlement Amount Calculation Request**”); and
    - (iv) such Clearing Member is neither a Non-Conforming Member nor a suspended Clearing Member.

From the date of a Cash Settlement Amount Calculation Request (a “**Cash Settlement Amount Calculation Request Date**”), CDCC will no longer be obliged to make any delivery under the relevant Transaction. This obligation will be replaced by an obligation of CDCC to pay the Clearing Member the Cash Settlement Amount.

- (c) A “**Cash Settlement Payment Default**” occurs if:
  - (i) after the expiry of a period of not less than five Business Days following the Cash Settlement Amount Calculation Request Date, the Clearing Member which made such request has requested CDCC in writing to pay the Cash Settlement Amount (a “**Cash Settlement Payment Request**”);
  - (ii) after the expiry of a period ending on a Business Day which is not less than two days after the date of the Cash Settlement Payment Request, CDCC fails to pay such Clearing Member the Cash Settlement Amount; and

- (iii) such Clearing Member is neither a Non-Conforming Member nor a suspended Clearing Member.
- (d) Upon the Cash Settlement Amount Calculation Request Date, the Calculation Agent will calculate the cash settlement amount (“**Cash Settlement Amount**”) within five Business Days of the Cash Settlement Amount Calculation Request as follows:
  - (i) the Default Value of the assets which are the subject of the Delivery Default (the “**Non-delivered Assets**”) will be determined by the Calculation Agent;
  - (ii) the Default Value of Non-delivered Assets will be set-off against the amount of the corresponding payment obligation of the Clearing Member under the relevant Transaction, such that the Cash Settlement Amount shall be equal to any such net amount which is owed by CDCC or the Clearing Member, whichever has the claim valued at the lowest amount; and
  - (iii) “**Default Value**” means with respect to any Non-delivered Assets, the value of such assets determined by the Calculation Agent using the following method:
 

The basis of the calculation will be the price for the Non-delivered Assets on the Business Day prior to the Cash Settlement Amount Calculation Request Date. To determine such price, the Calculation Agent will use the average of three quoted prices from Clearing Members other than the affected Clearing Member which participate in the relevant market and which shall quote a market price of the Non-delivered Assets as of the Business Day preceding the Cash Settlement Amount Calculation Request Date. The average of the quoted prices will be the Default Value of the Non-delivered Assets. If less than three quotations are provided as requested or the resulting price does not accurately reflect the value of the Non-delivered Assets because the relevant market is not operating normally, the Calculation Agent will determine the Default Value for the Non-delivered Assets acting in good faith and by using commercially reasonable procedures expected to produce a commercially reasonable result.
- (e) When the Calculation Agent determines a Cash Settlement Amount for Non-delivered Assets, it will be entitled to terminate, on a *pro rata* basis, Transactions with the affected Clearing Member from which CDCC has a claim to receive assets of the same kind up to the same quantity of assets to offset the original Transaction in respect of which CDCC would otherwise be required to pay a Cash Settlement Amount to the affected Clearing Member. With respect to any such terminated Transaction, the affected Clearing Member shall not be required to perform its obligation to deliver the relevant assets to CDCC and the Calculation Agent will determine the Cash Settlement Amount by offsetting the corresponding payment obligation of CDCC under any such terminated Transaction against the corresponding payment obligation of the affected Clearing Member under the original Transaction and such net amount shall be owed by CDCC or the Clearing Member, whichever has the claim valued at the lowest amount.
- (7) If at any time an Event of Default has occurred and is then continuing, the affected Clearing Member, in the case of an Event of Default which stems from a Failure to Pay, or any Clearing Member, in the case of an Event of Default which stems from an Insolvency Event, may by giving

no less than two and not more than five Business Days' written notice to CDCC, designate an early termination date ("**Early Termination Date**") in respect of all Transactions to which such Clearing Member is a party.

- (8) Upon the effective designation of an Early Termination Date pursuant to Subsection A-409(7), neither CDCC nor the relevant Clearing Member will be obliged to make any further payment or delivery under the applicable Transactions which would have become due thereafter. These obligations will be replaced by an obligation of either CDCC or the relevant Clearing Member, as applicable, to pay a Final Settlement Amount for all Transactions entered into in respect of Client Accounts, a Final Settlement Amount for all Transactions entered into in respect of Market Maker Accounts and a Final Settlement Amount for all Transactions entered into in respect of Firm Accounts, all in accordance with Subsection A-409(10).
- (9) The Calculation Agent is CDCC, which will be responsible for calculating any Cash Settlement Amount under Subsection A-409(6) and any Final Settlement Amount under Subsection A-409(10).
- (10) Upon the effective designation of an Early Termination Date pursuant to Subsection A-409(7), the Calculation Agent will as soon as practicable calculate the final settlement amount as follows:
  - (a) "**Final Settlement Amount**" means the amount determined by the Calculation Agent to be equal to, as of the Early Termination Date, (i) the sum of all Transaction Values which are positive for CDCC and the Amounts Due owed to CDCC less (ii) the absolute value of the sum of the amounts of all Transaction Values which are negative for CDCC and the Amounts Due owed by CDCC. When determining the Final Settlement Amount, the Calculation Agent shall act in good faith and by using commercially reasonable procedures expected to produce a commercially reasonable result. The Calculation Agent will calculate a Final Settlement Amount for all Transactions entered into in respect of Client Accounts, a Final Settlement Amount for all Transactions entered into in respect of Market Maker Accounts and a Final Settlement Amount for all Transactions entered into in respect of Firm Accounts. The Final Settlement Amount in respect of Client Accounts and that in respect of Firm Accounts will not be netted or set-off.
  - (b) "**Transaction Value**" means, with respect to any Transaction or group of Transactions, an amount equal to the loss incurred (expressed as a positive number) or gain realized (expressed as a negative number) by CDCC as a result of the designation of the Early Termination Date in respect of such Transaction(s), determined by calculating the arithmetic mean of the quotations for replacement or hedge transactions on the Quotation Date obtained by the Calculation Agent from not less than two leading market participants, including Clearing Members other than the affected Clearing Member. Each such quotation shall be expressed as the amount which the market participant would pay or receive on the Quotation Date if such market participant were to assume, as from the Quotation Date, the rights and obligations of CDCC (or their economic equivalent) under the relevant Transaction(s). The resulting amount shall be expressed as a positive number if it would be payable to the market participant, and shall otherwise be expressed as a negative number.
  - (c) "**Quotation Date**" means the Early Termination Date.

- (d) “**Amounts Due**” owed by a party means the sum of (i) any amounts that were required to be paid by such party or would have been required to be paid by such party but for the designation of the Early Termination Date under any Transaction on or prior to the Early Termination Date, but not paid, (ii) the Termination Value, as of the agreed delivery date, of each asset that was required to be delivered by such party on or prior to the Early Termination Date under any Transaction, but not delivered (in either case regardless of whether or not the party was entitled to withhold such payment or delivery), and (iii) interest calculated daily based on the applicable CORRA Rate (provided, however, that for any day which is not a Business Day, the CORRA Rate applicable on the immediately preceding Business Day shall be used for such purpose) on the amounts specified in (i) and (ii) from (and including) the due date of the relevant payment or delivery to (but excluding) the Early Termination Date.
  - (e) “**Termination Value**” means, in respect of any assets on any given date, an amount equal to the market price (including fees and expenses) which such party would have reasonably incurred in purchasing assets of the same kind and quantity in the market on such date; provided, however, that if a market price for such assets cannot be determined, an amount which the Calculation Agent determines in good faith to be the total losses and costs (or gains, as applicable) in connection with such assets.
- (11) The Final Settlement Amount in respect of Client Accounts, as calculated by the Calculation Agent, will be payable (a) to CDCC by the Clearing Member if it is a positive number and (b) by CDCC to the Clearing Member if it is a negative number; in the latter case the amount payable shall be the absolute value of such Final Settlement Amount. The Final Settlement Amount in respect of Market Maker Accounts, as calculated by the Calculation Agent, will be payable (a) to CDCC by the Clearing Member if it is a positive number and (b) by CDCC to the Clearing Member if it is a negative number; in the latter case the amount payable shall be the absolute value of such Final Settlement Amount. The Final Settlement Amount in respect of Firm Accounts, as calculated by the Calculation Agent, will be payable (a) to CDCC by the Clearing Member if it is a positive number and (b) by CDCC to the Clearing Member if it is a negative number; in the latter case the amount payable shall be the absolute value of such Final Settlement Amount.
  - (12) The Calculation Agent will notify the affected Clearing Member in writing as soon as practicable of the Final Settlement Amount calculated by it and provide a statement setting forth in reasonable detail the basis on which the Final Settlement Amount was determined. The Final Settlement Amount is payable by CDCC or the Clearing Member, as applicable, immediately upon receipt of such notice.
  - (13) The affected Clearing Member may set off its obligation (if any) to pay the Final Settlement Amount against any actual or contingent claims (“**Counterclaims**”) which it has against CDCC arising from CDCC’s obligations to that Clearing Member under any other contractual arrangement, as applicable. For the purpose of calculating the value of the Counterclaims, the Clearing Member shall (i) to the extent that they are contingent or unascertained, take into account for such calculation their potential amount, if ascertainable, or otherwise a reasonable estimate thereof, (ii) to the extent that they are claims other than for the payment of money, determine their value in money and convert them into a money claim, and (iii) to the extent that they are not yet due and payable, determine their present value (also having regard to interest claims).

(14)

- (a) A Clearing Member's close-out rights under this Section A-409 supersede its right to voluntarily withdraw as a Clearing Member set out in Section A-1A09. For greater certainty, an affected Clearing Member cannot exercise its right to withdraw from its membership if an Event of Default has occurred or any circumstance or event has occurred which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.
- (b) A Failure to Pay will be deemed not to have occurred if the Failure to Pay occurs as a result of a circumstance within the meaning of clause (i) of the definition of an Emergency in Section A-102 or which is otherwise a *force majeure*.

### Section A-410 ELIGIBLE FINANCIAL CONTRACTS

- (1) CDCC and each Clearing Member acknowledge that:
  - (a) the payment and delivery obligations of a Clearing Member and of CDCC arising from a Transaction constitute an eligible financial contract between CDCC and the Clearing Member;
  - (b) each of the Membership Agreement and the Rules constitute master agreements in respect of such eligible financial contracts and accordingly are also eligible financial contracts between CDCC and each Clearing Members; and
  - (c) the provisions of the Membership Agreement and the Rules which are of the type described in section 11.1 of the *Derivatives Act* (Québec) constitute an instrument contemplated by such section 11.1 and are considered to have been reiterated immediately after the coming into effect on November 30, 2011 of said section, and CDCC and each Clearing Member therefore benefit from the provisions of sections 11.1 and 11.2 of the *Derivatives Act* (Québec).
- (2) The Rules and the Membership Agreement shall be interpreted so as to ensure that CDCC or a Clearing Member, as the case may be, is accorded the rights and powers of a party to an eligible financial contract pursuant to the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada), the *Winding-Up and Restructuring Act* (Canada), the *Canada Deposit Insurance Corporation Act* or any similar legislation.
- (3) With respect to the *Payment Clearing and Settlement Act* (Canada), the provisions of the Membership Agreement and the Rules constitute (i) settlement rules of a designated clearing and settlement system within the meaning of section 8 of that Act, effective as of CDCC's designation under subsection 4 (1) of that Act; (ii) a netting agreement between two or more financial institutions within the meaning of section 13 of that Act; and (iii) a netting agreement between a securities and derivatives clearing house and a clearing member within the meaning of section 13.1 of that Act.

**Section A-411**  
**DEFAULT MANAGEMENT PERIOD**

- (1) A Default Management Period means the period:
- (a) commencing on the day that the Corporation declares the suspension of a Clearing Member, and
  - (b) concluding on the Default Management Period End Date;
- provided, however, that if the Corporation declares the suspension of a Clearing Member when a Default Management Period is ongoing due to the prior suspension of another Clearing Member, multiple Clearing Members' suspensions will be processed in a single Default Management Period.
- (2) The Default Management Period End Date shall occur on the Business Day following the declaration by the Corporation that:
- (a) the obligations, losses or expenses incurred or sustained by the Corporation in connection with the suspension(s) of Non-Conforming Member(s) are known, or can reasonably be determined, and have been satisfied or otherwise settled; or
  - (b) any of the actions, rights or remedies available to the Corporation with respect to the suspension of any Clearing Member that were deemed necessary by the Corporation have been taken; and
  - (c) the Default Management Period with respect to the suspended Clearing Member(s) has been completed.



## **RULE A-5**

### **DISCIPLINARY PROCEEDINGS**

#### **Section A-501**

##### **SANCTIONS**

- (1) The Corporation may in addition to or in lieu of other measures, impose a fine or a penalty, not to exceed \$250,000, on, and assess any reasonable costs, including legal fees, incurred by the Corporation against any Non-Conforming Member for any violation of any provision of the Application for Membership, or for any neglect or refusal by such Non-Conforming Member to comply with any applicable order or direction of the Corporation, or for any error, delay or other conduct embarrassing to the operations of the Corporation or for failure to provide adequate personnel or facilities for its transactions with the Corporation.
- (2) The Corporation shall be entitled to recover from any Non-Conforming Member the amount of any fines or penalties or sanctions assessed against it, plus the Corporation's reasonable costs and expenses, including legal expenses, incurred in connection with the matter giving rise to the fine or penalty or sanction.

#### **Section A-502**

##### **PROCEDURES**

- (1) Except as provided for in Subsection A-502(4) and in Section 7 of the Operations Manual with respect to late payments, the nature and quantum of any fine or penalty or sanction shall be determined and imposed by the Board. Before any sanction and/or fine and/or penalty is imposed by the Board, the Corporation shall furnish the Non-Conforming Member with a concise written statement of the charges. The written statement of charges shall contain any provision of the Application for Membership which is alleged to have been violated, the facts alleged and intended to be relied upon by the Corporation and the penalty or remedy recommended by the Corporation for each violation.
- (2) In the event that a Non-Conforming Member commits a breach contemplated under any provision of the Application for Membership, that Non-Conforming Member is subject to the penalties provided for in respect of such provisions. Said penalties shall not be imposed against such Non-Conforming Member until a hearing is held pursuant to Subsection A-502(3).
- (3) The Non-Conforming Member shall have 10 days after the delivery of a statement under Subsection 502(1) to file a written answer thereto. The answer shall admit or deny each allegation contained in the statement of charges and may also contain any defence which the Non-Conforming Member wishes to submit. The Board shall schedule a hearing as soon as reasonably practicable. The Non-Conforming Member shall be given not less than 10 days' advance notice of the place and time of such hearing. The notice of hearing shall contain a statement of the date, time and place of the hearing; a reference to the authority under which the hearing is being held; and the facts alleged and intended to be relied upon by the Corporation and the conclusions drawn by the Corporation based on the alleged facts. At the hearing, the Non-Conforming Member shall be afforded the opportunity to be heard and may be represented by counsel. A Non-Conforming Member shall be deemed to have waived its right to contest the imposition of any sanctions and/or fines and/or



penalties if it fails to file a defence and shall be deemed to have accepted any allegations and/or fines and/or penalties contained in the statement of charges which are not denied. As soon as practicable after the conclusion of the hearing, the Board shall furnish the Non-Conforming Member with a written statement of its decision, which shall be final, conclusive and binding on the Non-Conforming Member.

- (4) Any action required to be taken under this Rule A-5 by the Board may be delegated to a committee (the “**Disciplinary Committee**”), which shall consist of not less than three directors and may include such officers as the Board may delegate. In the event an action is taken by the Disciplinary Committee, the Board shall be advised and such action may be reviewed by the Board, either upon its own motion made at or before its next regular meeting or upon a motion filed by any person directly affected within seven days after the Disciplinary Committee has rendered its final decision. The Board may, in its sole discretion, afford the Non-Conforming Member a further opportunity to be heard or to present evidence as stipulated in the By-laws of the Corporation. A majority of the members of the Disciplinary Committee shall be Resident Canadians.
- (5) Any time limit set forth in this Section may be extended by the Board, the Disciplinary Committee, or by any officer acting pursuant to authorization of the Board.
- (6) Nothing contained herein shall be construed as derogating or attempting to derogate from the right of any Non-Conforming Member who has been the subject of disciplinary action pursuant hereto to avail itself of any right of appeal which is provided to such Non-Conforming Member by applicable law.

### **Section A-503**

#### **DISCIPLINE BY EXCHANGES**

Nothing in this Rule A-5 shall affect the right of any Exchange to discipline its members pursuant to the provisions of the by-laws, rules, directions or orders of such Exchange for a violation of the by-laws, rules, orders or directions of such Exchange, or of its application for membership.

## **RULE A-6 CLEARING FUND DEPOSITS**

### **Section A-601 CLEARING FUND MAINTENANCE AND PURPOSE**

- (1) The Corporation shall establish a Clearing Fund relating to all Transactions cleared by the Corporation. Each Clearing Member, except Limited Clearing Members, admitted to clear Transactions at the Corporation shall maintain a deposit in the Clearing Fund of the amounts from time to time required by the Rules. The Clearing Fund shall be used for the purposes set out in Section A-609 and Subsection A-701(2).
- (2) The Clearing Fund Base Deposits are as follows:
  - (a) Options Clearing Base Deposit • \$25,000 Cash.
  - (b) Futures Clearing Base Deposit • \$75,000 Cash.
  - (c) OTCI Clearing Base Deposit (other than Fixed Income Transactions) • \$100,000 Cash.
  - (d) Fixed Income Transactions Clearing Base Deposit • \$1,000,000 Cash.
- (3) This Rule A-6 is not applicable to Limited Clearing Members.

### **Section A-602 AMOUNT OF CLEARING FUNDS**

The Clearing Fund is constituted of the aggregate amount of the Clearing Fund deposits required by each Clearing Member at the close of each calendar month as Base Deposit and Variable Deposit. The amount required to be deposited by each Clearing Member to the Clearing Fund shall be calculated according to Section A-603. Unless otherwise specified, the Clearing Fund shall not include any deposit made in excess of the amount of the Clearing Fund deposits required by each Clearing Member.

### **Section A-603 AMOUNT OF DEPOSIT**

- (1) The required deposit of each Clearing Member to the Clearing Fund shall be an amount equal to the total of:
  - (a) an Options Clearing Base Deposit, if the Clearing Member has been accepted to clear Options;
  - (b) a Futures Clearing Base Deposit, if the Clearing Member has been accepted to clear Futures;

- (c) an OTCI Clearing Base Deposit, if the Clearing Member has been accepted to clear OTCI transactions other than Fixed Income Transactions;
  - (d) a Fixed Income Transactions Clearing Base Deposit, if the Clearing Member has been accepted to clear Fixed Income Transactions; and
  - (e) a Variable Deposit equal to the amount by which (i) the Clearing Member's contribution, in accordance with the methodology set out in the Risk Manual, to the Corporation's Uncovered Residual Risk exceeds (ii) such Clearing Member's Base Deposits.
- (2) Within a calendar month, if the Corporation determines that an increase to the Variable Deposit is necessary to protect its financial integrity, the Corporation will notify with a Clearing Fund statement the concerned Clearing Member(s) which shall increase in the determined amount and approved form its contribution to the Clearing Fund. The contribution to the Clearing Fund by the concerned Clearing Member(s) must be received by the Corporation on the following Business Day (T+1) by 10 a.m. (no same-day contribution).

#### **Section A-604** **CHANGES IN REQUIREMENT**

The amount of Base and Variable Deposits required to be made by Clearing Members may be modified from time to time by the Corporation. If the deposit to the Clearing Fund required to be made by a Clearing Member is thereby increased, the increase shall not become effective until the Clearing Member is given three Business Days' prior written notice of such modification. Unless a Clearing Member notifies the Corporation in writing that it wishes to withdraw its membership and closes out or transfers all of its aggregate positions in the relevant instrument before the effective date of such amendment, such Clearing Member shall be liable to make the increased deposit.

#### **Section A-605** **CLEARING FUND STATEMENT**

On the first Business Day of each calendar month, the Corporation shall issue to each Clearing Member a Clearing Fund statement that shall list the current amount of such Clearing Member's deposits to the Clearing Fund and the amount of deposit required of such Clearing Member. Any surplus over and above the amount required or any deficit to be satisfied will also be shown. A Clearing Fund statement will also be issued intra-monthly if an increase to the Variable Deposit is necessary. The contribution required by the Clearing Member to satisfy any deficit must be received by the Corporation on the following Business Day (T+1) by 10 a.m. (no same-day contribution).

#### **Section A-606** **ADDITIONAL CLEARING FUND DEPOSIT**

Whenever a Clearing Member's Clearing Fund statement shows a deficit, such Clearing Member shall satisfy the deficit by a deposit to the Corporation on the Business Day (T+1) following the issuance of the Clearing Fund statement, by 10 a.m. (no same-day contribution).

## **Section A-607**

### **WITHDRAWALS**

In the event that the Clearing Fund statement of a Clearing Member shows a surplus, the Clearing Member may request the withdrawal of such surplus by submitting a withdrawal request in the form and time prescribed by the Corporation.

## **Section A-608**

### **FORM OF DEPOSITS**

- (1) In addition to Base Deposits made pursuant to the requirements of Subsection A-601(2), Variable Deposits to the Clearing Fund shall also be in the form of Cash. Deposits in Cash shall be transferred by irrevocable funds transfer to the Corporation and may, from time to time, be partially or wholly invested by the Corporation for its account. To the extent not so invested, they shall be deposited to the credit of the Corporation in such financial institutions as the Board may select. The Corporation may determine from time to time to either pay interest or charge negative interest on such invested or deposited Cash. The Corporation publishes on its website information on the interest net of administration costs to be distributed to the Clearing Members, on the calculation of interest rates or negative interest rates as well as on any changes to the applicable calculation method of interest rates due to extraordinary market conditions or market disruption. Such information will be amended from time to time by the Corporation.
- (2) Any Clearing Fund deposit shall be deemed to be deposited with the Corporation at the time the Corporation accepts the Cash.

## **Section A-609**

### **APPLICATION OF CLEARING FUND**

- (1) The Corporation shall apply a suspended Clearing Member's Margin Deposit (including, without limitation, deposits required or made as Margin and Clearing Fund deposits), as well as the Clearing Fund deposits required of all other Clearing Members in accordance with Subsection A-609(2), as set out in Subsection A-701(2) and in accordance with the methodology set out in the Default Manual.
- (2) If the amount of the obligations, losses or expenses incurred or sustained by the Corporation in connection with the suspension of a Clearing Member exceeds the total amount of the suspended Clearing Member's Margin Deposit (including, without limitation, deposits required or made as Margin and Clearing Fund), and if such Clearing Member fails to pay the Corporation the amount of the deficiency on demand, the Corporation shall apply its own capital resources specifically set aside for such purpose up to the maximum amount set out in the Default Manual for a single Default Management Period, and if the amount of the deficiency exceeds such amount, the remaining deficiency shall be paid out of the Clearing Fund and charged based on the bidding behaviour of each Clearing Member in good standing in the course of the auction conducted in the course of the Default Management Period ("**Default Auction**") but, subject to and in accordance with the methodology set out in the Default Manual. In the event no Default Auction is conducted in the course of the Default Management Period, any deficiency shall be charged to the Clearing Members

other than the suspended Clearing Member(s), *pro rata*, based on the quotient obtained by dividing the amount of such Clearing Member's Clearing Fund deposit required at the beginning of the Default Management Period by the aggregate amount of Clearing Fund deposits required at the beginning of the Default Management Period by all Clearing Members other than the suspended Clearing Member(s). Notwithstanding any such charges made against the Clearing Fund deposits of each of the Clearing Members, the suspended Clearing Member which failed to pay the deficiency shall remain liable to the Corporation for the full amount of such deficiency until its repayment.

- (3) Whenever any such charges are made against Clearing Members' deposits to the Clearing Fund, the Corporation shall promptly notify each Clearing Member of the amount of the charge and the reasons therefor. For the purposes of this Section A-609, the amount of any claim of the Corporation for deficiencies against a Clearing Member shall be determined without reference to the possibility of any subsequent recovery in respect thereof, through insolvency proceedings or otherwise, but the net amount of any such recovery shall be applied in accordance with Section A-612.
- (4) Without limiting the rights of the parties under Section A-607 and Subsections A-609(1) and (2), at the sole discretion of the Corporation, all Cash deposited with the Corporation as a Clearing Fund deposit by any and all Clearing Members may be pledged, repledged, hypothecated, rehypothecated or transferred by the Corporation as security for, or in connection with, the Corporation's own obligations to any person incurred in order (a) to obtain liquidity or credit for the purpose of assisting the Corporation to honour its obligations on a timely basis further to the designation by the Corporation of a Clearing Member as being a Non-Conforming Member, or (b) to fund a payment obligation of the Corporation which arises pursuant to a Failed Delivery under Subsection A-804(1) by any Clearing Member, and any such security or transfer will be effective without the holder or recipient thereof being required to make any enquiry as to whether the applicable obligations have been incurred for the purposes set out in this Subsection A-609(4) or whether the funds so obtained are being used for such purposes. Without limiting the rights of the Corporation under Subsection A-701(2), at the sole discretion of the Corporation, in the case of the situation described in (a) above, the Corporation shall pledge the Non-Conforming Member's Margin Deposits (including, without limitation, Margin and Clearing Fund), in accordance with Subsection A-701(5), before pledging the Clearing Fund deposits of other Clearing Members. In the case of the situation described in (b) above, the Corporation shall pledge the Clearing Fund deposits of the Provider of Securities responsible for the Failed Delivery before pledging the Clearing Fund deposits of other Clearing Members. The Corporation shall be deemed to continue to hold all Cash deposited with the Corporation as Clearing Fund deposits, regardless of whether the Corporation has exercised its rights under this Subsection A-609(4).
- (5) Without limiting the rights of the Corporation under Subsections A-609(1) and A-609(4), during a single Default Management Period, the Corporation shall not, with respect to each Clearing Member that has not been suspended, apply more than 200% of the Clearing Fund deposit required by such Clearing Member as of the date of the commencement of the Default Management Period to satisfy or otherwise settle any obligations, losses or expenses incurred or sustained by the Corporation in connection with the suspension(s) of Clearing Member(s).

### **Section A-610**

#### **MAKING GOOD ON CHARGES TO CLEARING FUND**

Whenever an amount is paid out of the Clearing Fund deposits of the Clearing Members that have not been suspended, in accordance with Subsection A-609(2), such Clearing Members shall be liable to make good the deficiency if any in their deposits resulting from such payment on the Business Day following the date that the amount is paid out (T+1), by 10 a.m. (no same-day contribution), unless the Corporation issues a notice specifying a later date. Notwithstanding the foregoing, Clearing Members will not be liable to make good during a single Default Management Period more than an additional 200% of the amount of their Clearing Fund deposits required at the beginning of the Default Management Period as prescribed by the Rules.

### **Section A-611**

#### **DEPOSIT REFUND**

- (1) Whenever a Clearing Member ceases to be a Clearing Member in accordance with Section A-1A09, the amount of its Clearing Fund deposit shall be returned, subject to the time limit specified in Subsection A-611(2). All outstanding amounts chargeable against a Clearing Member's deposit in connection with its activities while a Clearing Member, shall be deducted from the amount to be returned.
- (2) Thirty days after a Clearing Member has ceased to be a member of the Corporation in accordance with Section A-1A09, the Corporation shall authorize such former member to withdraw its Clearing Fund deposit.

### **Section A-612**

#### **RECOVERY OF LOSS**

- (1) Subject to Section A-1013, if an amount charged against the deposits of Clearing Members in the Clearing Fund is subsequently recovered by the Corporation from the Clearing Member whose failure to pay led to the amount being charged, in whole or in part, the net amount of such recovery shall be paid or credited to the Clearing Members against whose deposit the loss was charged in proportion to the amount charged against their respective deposits, whether or not they remain Clearing Members.
- (2) Any Clearing Member that has had an amount charged against its deposit under Subsection A-609(2), shall have the right to claim from the Clearing Member whose failure to pay a deficiency led to the amount being charged and the Clearing Member shall be obliged to reimburse such other Clearing Member the amount so charged against the Clearing Member's deposit to the extent that such amount has not been recovered by the Corporation pursuant to Subsection A-612(1).

## **RULE A-7 MARGIN REQUIREMENTS**

### **Section A-701 MARGIN MAINTENANCE AND PURPOSE**

- (1) Prior to the Settlement Time on every Business Day, every Clearing Member shall be obligated to deposit Margin as determined by the Corporation in accordance with the Margin requirement methodology set out in the Risk Manual, in respect of:

- (a) each Long Position,
- (b) each Short Position,
- (c) each Assigned Position,
- (d) each exercised Option position, and
- (e) each tendered Futures position;

in each account maintained by such Clearing Member with the Corporation at the opening of such Business Day, including each such position that arises out of a Transaction having a Settlement Time on such Business Day, but excluding Short Positions and Assigned Positions for which either the Underlying Interest or the Underlying Interest Equivalent as specified in Section A-706 has been deposited with the Corporation. When determining whether additional Margin is required from a Clearing Member, the Corporation shall take into account, subject to Subsection A-704(2), all Margin deposited by the Clearing Member and not returned by the Corporation to the Clearing Member.

- (2) The Corporation shall apply the suspended Non-Conforming Member's Margin Deposit (including, without limitation, Margin and Clearing Fund), subject to Subsection A-701(3), to the discharge of:

- (a) the Non-Conforming Member's obligation with respect to any Transaction accepted by the Corporation, whether such failure is caused or not by the Non-Conforming Member;
- (b) a failure or anticipated failure to make any payment to the Corporation required of the Non-Conforming Member, whether such failure is attributable to the Non-Conforming Member or not;
- (c) any loss or expense anticipated or suffered by the Corporation upon the liquidation of the Non-Conforming Member's position;
- (d) any loss or expense anticipated or suffered by the Corporation pertaining to the Non-Conforming Member's obligations in respect of exercised Options or tendered Futures or OTCI for which settlement has not yet been made or in connection with hedging transactions effected for the account of the Corporation pursuant to Rule A-4 in respect of the Non-Conforming Member's positions in Options, Futures and OTCI;



- (e) any protective or hedging transaction effected for the account of the Corporation pursuant to Rule A-4 in respect of the Non-Conforming Member's positions in Options and Futures;
  - (f) any protective or hedging transaction effected for the account of the Corporation pursuant to Rule A-4 in respect of the Non-Conforming Member's positions in any OTCI; or
  - (g) subject to Section A-1B01, any other situation determined by the Board.
- (3) Each Clearing Member grants to the Corporation a first ranking pledge over all property (including without limitation Margin and Clearing Fund) that constitutes Margin Deposit or other property which may from time to time be in the possession or control of the Corporation, or in the possession or control of a person acting on behalf of the Corporation. This pledge shall secure the performance by the Clearing Member of all of its obligations to the Corporation and, to the extent such pledge relates to Clearing Fund deposits, it shall also secure the performance by another Clearing Member which is a Non-Conforming Member of its obligations to the Corporation, all subject to the provisions of Rule A-6 and the Default Manual, provided that, except for Clearing Fund deposits, Margin Deposits with respect to a Client Account shall only secure the performance by the Clearing Member of its obligations in respect of that Client Account, and Margin Deposits with respect to a Market Maker Account shall only secure the performance by the Clearing Member of its obligations in respect of that Market Maker Account. Notwithstanding the foregoing, if the Clearing Member does not identify its Margin Deposits with respect to each of its accounts, the Corporation shall use all Margin Deposits without distinction as securing all the obligations of the Clearing Member in respect of all its accounts. The Clearing Member shall execute and deliver (or cause to be executed and delivered) such other documents as the Corporation may from time to time request for the purpose of confirming or perfecting the pledge granted to the Corporation by the Clearing Member; provided that the failure by the Corporation to request or by the Clearing Member to execute and deliver (or cause to be executed and delivered) such documents shall not limit the effectiveness of the pledge in favour of the Corporation.
- (4) Except as permitted under Subsection A-609(4) in respect of Clearing Fund deposits and under Subsection D-607 in respect of Net Variation Margin Requirement deposits, and without limiting the right of the Corporation to invest the Margin Deposits in the form of cash under Subsections A-608(1) and A-707(1), the Corporation shall not grant a pledge over, transfer, or terminate under an Account Control Agreement authorizations to deal with, any property deposited as Margin Deposit by a Clearing Member which has not been designated as a Non-Conforming Member and suspended by the Corporation.
- (5) Without limiting the rights of the Corporation under Subsection A-701(2), the Corporation may at its sole discretion grant a pledge over or transfer all property deposited as Margin Deposit (including, without limitation, Margin and Clearing Fund) by a Clearing Member which has been suspended, as security for, or in connection with, the Corporation's own obligations to any person incurred in order to obtain liquidity or credit for the purpose of assisting the Corporation to honour its obligations on a timely basis further to the designation by the Corporation of such Clearing Member as being a suspended Clearing Member. In such circumstances, the Corporation shall grant a pledge over or transfer such Clearing Member's Margin Deposits before doing so with respect to the Clearing Fund deposits of other Clearing Members, in accordance with Subsection A-609(4). The Corporation shall be deemed to continue to hold all Margin Deposits regardless of whether the Corporation has exercised its rights under this Subsection A-701(5).

- (6) Any account or sub-account of a Clearing Member with the Corporation that reflects Financial Assets deposited with the Corporation by or on behalf of such Clearing Member for Margin purposes and to which such Financial Assets are credited, shall be considered a securities account for purposes of the QSTA or any similar securities transfer law of any other jurisdiction.

### **Section A-702**

#### **DISCRETIONARY MARGIN RULE**

The amount of Margin which may be required from a Clearing Member pursuant to this Rule A-7 (other than Margin required pursuant to Rule D-607) may be varied by the Corporation at any time and from time to time without advance notice whenever the Corporation, in its sole discretion, considers such variation necessary or advisable for the protection of the Corporation, Clearing Members or the investing public.

### **Section A-703**

#### **DAILY MARGIN ACTIVITY**

- (1) Each Business Day, the Corporation shall make available to each Clearing Member for each account maintained by the Clearing Member with the Corporation the reports which shall show the amount of Margin required to be deposited by virtue of the Clearing Member's positions. All Margin requirements shall be satisfied by Settlement Time on each Business Day notwithstanding any error in the information reflected in the reports issued.
- (2) If for any reason a report is not available to a Clearing Member, it shall be the responsibility of that Clearing Member to ascertain from the Corporation the amount of Margin required to be deposited, so that the Margin requirements are met before Settlement Time each Business Day.

### **Section A-704**

#### **WITHDRAWALS OF MARGIN**

- (1) Subject to Subsection A-704(2), in the event that on any particular day the amount of a Clearing Member's Margin on deposit exceeds the amount required to be deposited by such Clearing Member on such day pursuant to this Rule A-7, the Corporation shall authorize the withdrawal of the amount of the excess upon the submission to the Corporation, by such Clearing Member during the hours specified by the Corporation, of a withdrawal request in the form prescribed by the Corporation provided that the Clearing Member shall provide the Corporation with sufficient prior notice of such withdrawal request as set out in the Operations Manual.
- (2) If a Clearing Member has excess Margin deposited in respect of any Firm Account, the Corporation shall be entitled to apply such excess (or a portion thereof) as is necessary to meet the Margin requirements in respect of a Client Account or Market Maker Account. If a Clearing Member has excess Margin deposited in respect of any Client Account or any Market Maker Account, the Clearing Member shall not be entitled to apply such excess (or a portion thereof) to meet the Margin requirements in respect of a Firm Account; provided, however, that if the Clearing Member does not identify its Margin Deposits with respect to each of its accounts, the Corporation shall apply the Margin deposited by a Clearing Member indistinctively to meet the Margin requirements in respect of all its accounts.

## Section A-705 INTRA-DAY MARGIN CALLS

- (1) Section 2 of the Operations Manual specifies the time of the Intra-Day Margin Calls.
- (2) The Corporation may also perform additional Intra-Day Margin Calls and require the deposit of supplementary Margin (other than Margin required pursuant to Rule D-607) by any Clearing Member in any account at any time during any Business Day which the Corporation, in its sole discretion, considers necessary or advisable to reflect changes during such day in the Market Price of any Underlying Interest in order to protect the Corporation, Clearing Members or the public.
- (3) Subject to Subsection A-704(2), if a Clearing Member has excess Margin, the Corporation shall be entitled, upon determining that supplementary Margin is required in accordance with paragraph (2) above, immediately to apply such portion of the excess Margin as is necessary to meet the supplementary Margin requirements. The Corporation shall notify the Clearing Member as soon as practicable of such application. If there is no excess Margin then on deposit, the Corporation will notify the Clearing Member of the amount of supplementary Margin required. Such supplementary Margin shall be deemed to be owing upon a Clearing Member receiving notice thereof and shall be deposited by the Clearing Member within one hour of the Clearing Member receiving such notice, or such longer time as may be provided in the Operations Manual or permitted by the Corporation. Credit for all such supplementary Margin deposits, shall be reflected on the Daily Settlement Summary Report on the following Business Day.

## Section A-706 UNDERLYING INTEREST AND UNDERLYING INTEREST EQUIVALENT

Clearing Members shall NOT be required to deposit Margin in respect of Short Positions in Futures or Options for which they have deposited the Underlying Interest or Underlying Interest Equivalent as herein defined.

- (1) For **CALL OPTIONS** the Underlying Interest or Underlying Interest Equivalent shall mean:
  - (a) Equity Options –
    - (i) the underlying Security or any Security exchangeable or convertible without restriction, other than the payment of Cash, into the underlying Security shall be acceptable, provided that neither the Security nor the right to exchange or convert lapses throughout the life of the Option. Where the payment of money is a condition of conversion such Cash shall be deposited with the Corporation at the same time as the convertible Security. This provision applies to warrants, rights, and convertible Securities.
    - (ii) a Call Underlying Interest Deposit issued by an Approved Depository in favour of the Corporation.
  - (b) Bond Options – Government of Canada Bonds (excluding Canada Savings Bonds) which:
    - (i) are the underlying bond; or

- (ii) have been determined by the Corporation as acceptable on the basis that they:
    - (A) have higher coupon rates;
    - (B) have an aggregate face value at maturity of at least \$1,000,000,000;
    - (C) trade at a premium of \$5 greater than the underlying bond; and
    - (D) mature no sooner than two years prior to the underlying bond.
- (c) Silver Options – silver certificates issued by organizations acceptable to the Corporation.
- (d) Cash Settlement Options –
  - (i) Government Securities as specified in Section A-707 equal in value to the aggregate current value (which for the purposes of this Section A-706 have the meaning attributed thereto in Section B-1001 as the context requires) of the Option at the close of trading on the Business Day prior to the deposit.
  - (ii) If the value of the government Securities deposited for each contract falls below the value of the aggregate current value on any Business Day the Corporation may call for an additional deposit or Margin.
- (e) Options on short term money-market instruments expiring in one year or less.
 

The Underlying Interest or any other instrument acceptable to the Corporation.
- (f) Futures Options – Government of Canada Bonds (excluding Canada Savings Bonds) which:
  - (i) are the underlying bond; or
  - (ii) have been determined by the Corporation as acceptable.
- (g) Gold Options – gold certificates issued by organizations acceptable to the Corporation.
- (2) For **PUT OPTIONS** Underlying Interest and Underlying Interest Equivalent shall mean:
  - (a) Cash deposited at the Corporation in the amount of the relevant Exercise Price;
  - (b) a Put Escrow Receipt issued by an Approved Depository in favour of the Corporation.
- (3) For **FUTURES** Underlying Interest and Underlying Interest Equivalent shall mean:
  - (a) any Underlying Interest which would be considered to be in Good Deliverable Form on the corresponding Futures contracts;
  - (b) a Futures Underlying Interest Deposit issued by an Approved Depository in favour of the Corporation.

For cash settlement Futures, the Corporation may impose from time to time at its sole discretion Margin requirements on the Underlying Interest or Underlying Interest Equivalent as determined by the Corporation.

## Section A-707 ELIGIBLE COLLATERAL

Margin requirements may be fulfilled by depositing, subject to Section A-212, one or more of the following forms of eligible collateral which meet certain criteria as described in the Risk Manual:

- (1) Cash – Clearing Members may deposit Cash by way of an irrevocable funds transfer to the Corporation. Funds so deposited may, from time to time, be partially or wholly invested by the Corporation for its account and, to the extent not so invested, shall be deposited to the credit of the Corporation in such financial institutions as the Board may select. The Corporation may determine from time to time to either pay interest or charge negative interest on such invested or deposited Cash. The Corporation publishes on its website information on the interest net of administration costs to be distributed to the Clearing Members, on the calculation of interest rates or negative interest rates as well as on any changes to the applicable calculation method of interest rates due to extraordinary market conditions or market disruption. Such information will be amended from time to time by the Corporation.
- (2) Debt – Clearing Members may deposit with the Corporation debt Securities which respect certain eligibility criteria determined by the Corporation in the Risk Manual (“**Debt Securities**”). The Corporation establishes, reviews on a regular basis and publishes the list of eligible Debt Securities on its web site.

Debt Securities shall be freely negotiable and shall be valued at a discounted rate to their market value, as determined by the Corporation from time to time in accordance with the methodology set forth in the Risk Manual. Such valuation rate shall be applied to the market value of the relevant Securities. “**Market value**” as used in this Subsection A-707(2) shall be determined on the close of each Business Day by the Corporation through reference to one or more data supply services retained by the Corporation for such purpose. If a market value is required to be determined on a non-Business Day, and the data supply service does not provide a market value for such day, the market value on the immediately preceding Business Day shall be used. If no market value is generally available for any Debt Securities accepted by the Corporation as eligible collateral, such Securities shall be valued at an amount determined by the Corporation.

The Debt Securities shall be deemed to be deposited with the Corporation at the time the Corporation accepts the Debt Securities as Margin. All interest or gain received or accrued on such Debt Securities prior to any sale or negotiation thereof shall belong to the depositing Clearing Member and such interest will be paid to such depositing Clearing Member by the relevant issuer.

- (3) Valued Securities – In addition to the Underlying Interest and Underlying Interest Equivalent which may be deposited under Section A-706, Clearing Members may deposit with the Corporation certain Securities which respect certain eligibility criteria determined by the Corporation in the Risk Manual (“**Valued Securities**”). The Valued Securities shall be deemed to be deposited with the Corporation at the time the Corporation accepts the Valued Securities as Margin.

The Corporation may, on an exceptional and temporary basis at its sole discretion, accept other forms of eligible collateral or cease accepting any form of eligible collateral and require, if applicable, the replacement of such collateral. When the Corporation ceases to accept a form of eligible collateral, the Corporation shall notify all Clearing Members who, where required, shall promptly replace all unacceptable forms of collateral deposited with the Corporation with eligible collateral.

## **RULE A-8**

### **DAILY SETTLEMENT**

#### **Section A-801**

##### **DAILY SETTLEMENT SUMMARY**

- (1) Each Business Day the Corporation shall issue or make available to each Clearing Member in accordance with the Operations Manual, the reports, notice, instruction, data or other information summarizing each Clearing Member's activities, including the payments, deposits, transfer, delivery, Margin and Clearing Fund obligations required in connection with such activities.
- (2) For greater certainty, subject to any Rule which expressly prohibits netting, on each Business Day:
  - (a) the Corporation shall have the right to net all payments owing to a Clearing Member on such Business Day, other than payments owing to a Clearing Member which are settled through a Central Securities Depository, against all payments owing by a Clearing Member on such Business Day, other than payments owing by a Clearing Member which are settled through a Central Securities Depository, such that one net amount shall be payable to or from such Clearing Member by the Settlement Time;
  - (b) subject to Subsection A-704(2), the Corporation shall have the right to net Margin requirements, other than the Net Variation Margin Requirement under Section D-607, owing by a Clearing Member in respect of one product on such Business Day against excess Margin delivered by such Clearing Member and available in respect of another product on such Business Day such that Margin in one net amount is required to be delivered by the Clearing Member on such Business Day or one net amount is available for withdrawal by such Clearing Member on such Business Day under Section A-704;
  - (c) in respect of the delivery versus payment settlement of Acceptable Securities through a Central Securities Depository, subject to Subsection D-606(6), the Corporation shall have the right to net all payments owing to a Clearing Member on such Business Day, including without limitation, any due and payable Postponed Payment Obligation, against all payments owing by a Clearing Member on such Business Day, including without limitation, any due and payable Postponed Payment Obligation, such that one Net Payment Against Delivery Requirement shall be payable to or from such Clearing Member for settlement at such Central Securities Depository by the End of Day DVP Settlement Time;
  - (d) in respect of the delivery versus payment settlement of Acceptable Securities through a Central Securities Depository, subject to Subsection D-606(6), the Corporation shall have the right to net all settlement obligations for the same CUSIP/ISIN number for an Acceptable Security owing to a Clearing Member on such Business Day, including without limitation, any Rolling Delivery Obligation in respect of such Acceptable Security, against all settlement obligations for such Acceptable Security owing by a Clearing Member on such Business Day, including without limitation, any Rolling Delivery Obligation in respect of such Acceptable Security, such that one Net Delivery Requirement in respect of such Acceptable Security is owing to or from such Clearing Member by the End of Day DVP Settlement Time.



- (3) Notwithstanding Paragraph A-801(2)(c), as of the Morning Netting Cycle Timeframe on each Business Day, the Corporation shall net all Pending Payment Against Delivery Requirements owing to a Clearing Member against all Pending Payment Against Delivery Requirements owing by a Clearing Member, such that one Morning Net Payment Against Delivery Requirement shall be payable to or from such Clearing Member at the Morning Net DVP Settlement Timeframe; provided, however, that if the Morning Net Payment Against Delivery Requirement payable from a Clearing Member exceeds the amount of the CDCC Daylight Credit Facility, such Clearing Member shall be required to have available funds in its CDS Funds Account in the amount of the CDCC Daylight Credit Facility only.
- (4) In respect of the Variation Margin Requirements, subject to Section D-607, the Corporation shall have the right to net the Variation Margin Requirements owing by a Clearing Member in respect of Fixed Income Transactions to which such Clearing Member is a party on such Business Day against any Variation Margin Requirements owing to such Clearing Member and available in respect of the Fixed Income Transactions to which such Clearing Member is a party on such Business Day such that a Net Variation Margin Requirement in one net amount is required to be delivered by the Clearing Member on such Business Day or one net amount is required to be delivered to the Clearing Member on such Business Day.
- (5) Notwithstanding Paragraphs A-801(2)(c) and A-801(2)(d), as of the Afternoon Netting Cycle Timeframe on each Business Day, the Corporation shall (i) net all Pending Delivery Requirements owing to a Clearing Member against all Pending Delivery Requirements owing by a Clearing Member with respect to each Acceptable Security, such that one Afternoon Net DVP Settlement Requirement in respect of such Acceptable Security shall be deliverable to or from such Clearing Member by the End of Day DVP Settlement Time; and (ii) net all Pending Payment Against Delivery Requirements owing to a Clearing Member against all Pending Payment Against Delivery Requirements owing by a Clearing Member, such that one Afternoon Net DVP Settlement Requirement shall be payable to or from such Clearing Member by the End of Day DVP Settlement Time.

## **Section A-802**

### **DAILY SETTLEMENT**

- (1) On or before Settlement Time on each Business Day, as determined by the Bank of Canada to be a settlement day, each Clearing Member shall be obligated to pay the Corporation, in Cash, by irrevocable funds transfer or any other method as may be approved by the Corporation from time to time, the amount of any Net Daily Settlement shown to be due to the Corporation on the Daily Settlement Summary Report (notwithstanding any error in such report).
- (2) If for any reason the Daily Settlement Summary Report is not available to the Clearing Member, it shall be the responsibility of that Clearing Member to ascertain from the Corporation the amount of any Net Daily Settlement, so that payment may be made before Settlement Time each Business Day.
- (3) Provided all applicable conditions precedent have been satisfied, one hour after Settlement Time on each Business Day the Corporation shall be obligated to pay a Clearing Member the amount of any Net Daily Settlement shown to be due from the Corporation to such Clearing Member on the Daily Settlement Summary Report for such account for such day. The Corporation may make such

payment to the Clearing Member by uncertified cheque or electronic funds transfer in the amount of such Net Daily Settlement.

- (4) When the banks in a city where the Corporation has an office are closed on a Business Day, settlement shall nevertheless occur through the method of irrevocable funds transfer or any other method as may be approved by the Corporation from time to time on such Business Day if it has been determined by the Bank of Canada to be a settlement day.
- (5) If the Corporation does not have sufficient liquidity to pay all the Net Daily Settlements it owes to Clearing Members on a given Business Day, the Corporation shall fail to pay *pro rata* among such Clearing Members and that event shall constitute a Payment Default trigger under Paragraph A-409(5)(a) in respect of the affected Clearing Members.

### Section A-803 PHYSICAL SETTLEMENT

Where the Corporation will effect the transfer of Acceptable Securities through a Central Securities Depository, the Corporation shall be exclusively responsible for the communication of Net Delivery Requirements, Gross Delivery Requirements and Afternoon Net DVP Settlement Requirements consisting of obligations to deliver Acceptable Securities to such Central Securities Depository and will bear no responsibility for the replacement of the Acceptable Securities in the event that the Clearing Member fails to perform on the physical delivery obligation. The Corporation will, however, bear the responsibility of guaranteeing the Settlement Amounts derived from the physical delivery process up to the time a CSD Confirmation is issued, and, for greater certainty, has no liability in respect of such Settlement Amounts at any time after the issuance of such CSD Confirmation in respect of such Settlement Amounts. A “**CSD Confirmation**” means in respect of settlement instructions relating to a Net Delivery Requirement, a Gross Delivery Requirement or an Afternoon Net DVP Settlement Requirement consisting of an obligation to deliver Acceptable Securities, as the case may be, a trade confirmation issued by the applicable Central Securities Depository confirming that the applicable Provider of Securities’ securities account with such Central Securities Depository has been debited with Acceptable Securities in accordance with such settlement instructions; and in respect of settlement instructions relating to a Net Payment Against Delivery Requirement, a Gross Payment Against Delivery Requirement, a Morning Net Payment Against Delivery Requirement or an Afternoon Net DVP Settlement Requirement consisting of an obligation to pay against the delivery of Acceptable Securities, as the case may be, a trade confirmation issued by the applicable Central Securities Depository confirming that the applicable Clearing Member’s CDS Funds Account has been debited in accordance with such settlement instructions.

### Section A-804 FAILED AND PARTIAL DELIVERIES

- (1) If a Clearing Member who is a Provider of Securities does not deliver Acceptable Securities pursuant to a Net Delivery Requirement, an Afternoon Net DVP Settlement Requirement consisting of an obligation to deliver Acceptable Securities or a Gross Delivery Requirement resulting from a Same Day Transaction submitted after the Afternoon Netting Cycle Timeframe as it is required to do under these Rules, or only partially delivers such Acceptable Securities required to be delivered by it pursuant to these Rules, by the End of Day DVP Settlement Time (in all cases, a “**Failed Delivery**”), the reciprocal payment obligation of the Corporation in favour of that Clearing Member

shall be reduced accordingly. For the avoidance of doubt, a Failed Delivery hereunder shall not constitute a breach of the Rules under Section A-1A04(4)(a) or an event otherwise in and of itself constituting a reasonable ground for the Corporation to determine that a Clearing Member is a Non-Conforming Member. The quantity of such Acceptable Securities that has not been delivered shall constitute a Rolling Delivery Obligation of the failing Clearing Member for purposes of calculating the next Business Day's Net Delivery Requirement under Section A-801(2)(d), and the Net Delivery Requirement of each subsequent Business Day, until the quantity of such Acceptable Securities due are delivered in full, at which time the Corporation's Postponed Payment Obligation shall become due and payable. Notwithstanding the foregoing, a Failed Delivery will not be rolled beyond the maturity date of the relevant Acceptable Security. On the maturity date of the relevant Acceptable Security, the Rolling Delivery Obligation of the Provider of Securities will be converted into a cash settlement obligation at the Acceptable Security's principal value at maturity, which amount shall be netted against the Corporation's Postponed Payment Obligation. For the avoidance of doubt, the value of any Coupon Income payable with respect to an Acceptable Security that is the object of a Rolling Delivery Obligation and the value of any final Coupon Income payable on the maturity date of the relevant Acceptable Security shall be paid by the Provider of Securities to the Corporation.

- (2) As a direct consequence of a Clearing Member's Failed Delivery, the Corporation will fail or partially deliver for the same quantity of Acceptable Securities *pro rata*, in accordance with the Operations Manual, among Clearing Members who are Receivers of Securities with respect to such Acceptable Securities on the relevant Business Day from the Corporation. In the case of a Failed Delivery with respect to a Gross Delivery Requirement, the Corporation will fail or partially deliver for the same quantity of Acceptable Securities to the Clearing Member who is the Receiver of Securities with respect to the relevant Same Day Transaction. The reciprocal Net Payment Against Delivery Requirement, Afternoon Net DVP Settlement Requirement consisting of an obligation to pay against the delivery of Acceptable Securities or Gross Payment Against Delivery Requirement, as the case may be, of such Receivers of Securities in favour of the Corporation shall be reduced accordingly and the quantity of such Acceptable Securities that has not been delivered shall constitute a Rolling Delivery Obligation of the Corporation for purposes of calculating the next Business Day's Net Delivery Requirement, and the Net Delivery Requirement of each subsequent Business Day, until the quantity of Acceptable Securities due are delivered in full, at which time the Receiver of Securities' Postponed Payment Obligation shall become due and payable. Notwithstanding the foregoing, on the maturity date of the relevant Acceptable Security, the Rolling Delivery Obligation of the Corporation will be converted into a cash settlement obligation at the Acceptable Security's principal value at maturity, which amount shall be netted against the Receiver of Securities' Postponed Payment Obligation. For the avoidance of doubt, the value of any Coupon Income payable with respect to an Acceptable Security that is the object of a Rolling Delivery Obligation and the value of any final Coupon Income payable on the maturity date of the relevant Acceptable Security shall be paid by the Corporation to the Receiver of Securities.
- (3) Notwithstanding any other provision of this Section A-804, the Corporation may, on its own initiative, and shall, pursuant to a formal request by a Receiver of Securities affected by a Failed Delivery as set forth in Subsection A-804(2), terminate the daily roll mechanic set out under Subsection A-804(1) and Subsection A-804(2) and effect a buy-in transaction under Subsection A-804(4), in addition to the exercise of any other remedies under the Rules.
- (4) Upon termination of the daily roll mechanic set out under Subsection A-804(1) and A-804(2) pursuant to Subsection A-804(3), the Corporation shall satisfy its Net Delivery Requirement, its

obligation to deliver Acceptable Securities against an Afternoon Net DVP Settlement Requirement consisting of a payment obligation of the Clearing Member or Gross Delivery Requirement (in all cases, the “**Corresponding CDCC Delivery Requirement**”), as the case may be, to Receivers of Securities with respect to such Acceptable Securities, notwithstanding any Failed Delivery by any Provider of Securities, by purchasing the missing quantity of such Acceptable Securities on the open market on such terms as the Corporation deems commercially reasonable in the circumstances. The difference between the price paid by the Corporation to purchase the missing quantity on the open market (including associated costs incurred) and the Purchase Price (or Repurchase Price, as the case may be) of the relevant Transaction(s) shall be charged to the Provider of Securities who was responsible for a Failed Delivery of such Acceptable Securities.

- (5) If the Corporation is unable to satisfy its Corresponding CDCC Delivery Requirement to the Receiver(s) of Securities of such Acceptable Securities under Subsection A-804(4) because they are unavailable on the open market or the Corporation determines in its sole discretion, taking into account the size and nature of the Failed Delivery, the market conditions prevailing at the time, the potential market effects of purchasing the missing quantity on the open market and associated costs, and such other circumstances that the Corporation, in its sole discretion, deems relevant, that such buy-in transaction would not be in the best interest of the Corporation, other Clearing Members or the general public, the Corporation will fail to satisfy its Corresponding CDCC Delivery Requirement to such Receiver(s) of Securities and will convert the relevant Failed Delivery into a cash settlement obligation at the Acceptable Security’s fair market value, as determined by the Corporation in a commercially reasonable manner, netted against the Receiver(s) of Securities’ Postponed Payment Obligation. Such cash settlement amount shall be determined by the Corporation within five Business Days of the termination of the daily roll mechanic pursuant to Subsection A-804(3) and shall be immediately credited (or charged, as the case may be) by the Corporation to the relevant Receiver(s) of Security and simultaneously charged (or credited, as the case may be) by the Corporation to the Provider of Securities responsible for such Failed Delivery. Failure by the Provider of Securities responsible for the Failed Delivery, or by the relevant Receiver(s) of Securities, as the case may be, to pay such cash settlement amount to the Corporation shall constitute a payment default, upon which the Corporation may determine that the Clearing Member is a Non-Conforming Member and take such actions and remedies provided under these Rules against such Non-Conforming Member.

## Section A-805

### FINAL AND IRREVOCABLE PAYMENT

When the settlement of a payment obligation of a Clearing Member or the Corporation is made through an entry to or a payment out of an account as provided in Section A-802 or through an entry to or a payment out of an account as provided in Section A-803, such settlement of the payment obligation of a Clearing Member or the Corporation shall be final and irrevocable.

## Section A-806

### FAILED AND PARTIAL PAYMENTS AGAINST DELIVERY

- (1) If a Clearing Member does not have sufficient funds in its CDS Funds Account to satisfy its payment against delivery obligation pursuant to Subsection A-801(3), or only partially settles such payment against delivery obligation (in either case, a “**Failed Payment Against Delivery**”) at the

Morning Net DVP Settlement Timeframe, the Corporation shall impose a fine and may determine that the Clearing Member is a Non-Conforming Member, in accordance with Section 6 of the Operations Manual. In addition, the Board may take disciplinary measures set forth in Rule A-5 against the Non-Conforming Member.

- (2) If a Clearing Member does not have sufficient funds in its CDS Funds Account to satisfy its Afternoon Net DVP Settlement Requirement pursuant to Subsection A-801(5)(ii) or any Gross Payment Against Delivery Requirement by the End of Day DVP Settlement Time or only partially settles such payment against delivery obligation (also, in either case, a Failed Payment Against Delivery), the Clearing Member shall automatically be determined by the Corporation to be a Non-Conforming Member in accordance with Section 6 of the Operations Manual and the Board may take disciplinary measures set forth in Rule A-5 against the Non-Conforming Member.
- (3) If the Corporation does not have sufficient funds in its CDS Funds Account to satisfy all its Afternoon Net DVP Settlement Requirements pursuant to Subsection A-801(5)(ii) and all its Gross Payment Against Delivery Requirements in favour of Clearing Members by the End of Day DVP Settlement Time, it shall fail to settle its payment against delivery obligations at the Central Securities Depository *pro rata* among such Clearing Members and that event shall constitute a Payment Default trigger under Paragraph A-409(5)(a) in respect of the affected Clearing Members.

## **RULE A-9**

### **ADJUSTMENTS IN CONTRACT TERMS**

#### **Section A-901**

##### **APPLICATION**

This Rule A-9 is applicable to Transactions where the Underlying Interest is a Security.

Notwithstanding Section A-102, for the purposes of the Rule A-9, the following term is defined as:

**“Similar Instruments”** Over-the-Counter Instruments or any other instruments which are determined by the Corporation as acceptable for clearing.

#### **Section A-902**

##### **ADJUSTMENTS IN TERMS**

- 1) Whenever there is a dividend, stock dividend, stock distribution, stock split, trust unit split, reverse stock split, reverse trust unit split, rights offering, distribution, reorganization, recapitalization, reclassification or similar event in respect of any Underlying Interest, or a merger, consolidation, dissolution or liquidation of the issuer of any Underlying Interest, the number of contracts of the Derivative Instruments, the Unit of Trading, the Settlement Price, the Exercise Price, and the Underlying Interest, or any of them, with respect to all outstanding Derivative Instruments open for trading in that Underlying Interest may be adjusted in accordance with this Section A-902.
- 2) The Corporation, acting through a committee (“Adjustment Committee”), shall determine whether to make adjustments to reflect particular events in respect of an Underlying Interest, and the nature and extent of any such adjustment, based on its judgment as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to buyers and sellers of the affected Derivative Instruments and to Clearing Members and the Corporation, the maintenance of a fair and orderly market in Derivative Instruments on the Underlying Interest, consistency of interpretation and practice, efficiency of exercise settlement procedures, efficiency of Futures settlement procedures and the coordination with other clearing agencies of the clearance and settlement of transactions in the Underlying Interest. The Adjustment Committee may, in addition to determining adjustments on a case-by-case basis, adopt statements of policy or interpretation having general application to specified types of events. Any such statements of policy or interpretation shall be disseminated to all Clearing Members, Exchanges and securities and/or derivative instruments regulatory authorities having jurisdiction over the Corporation. Every determination by the Adjustment Committee pursuant to this Section A-902 shall be within the sole discretion of the Adjustment Committee, as it deems necessary in such circumstances and at the time of such determination, and shall be conclusive and binding on all investors and Clearing Members and not subject to review, other than review by securities and/or derivative instruments regulatory authorities having jurisdiction over the Corporation pursuant to applicable provisions of the respective statutes. The Adjustment Committee has the discretion to deviate from policy or precedent when it deems unusual circumstances make such a deviation appropriate. If the Adjustment Committee is not informed of an event, or not informed in a timely manner, and such



an event could possibly have required an adjustment, the Corporation will not be liable in any circumstances if i) it does not proceed with such adjustment or ii) it proceeds with an adjustment with a delay.

- 3) It shall be the general rule that there will be no adjustments of Options and Similar Instruments to reflect ordinary cash dividends or distributions, or ordinary stock dividends or distributions, or ordinary trust unit dividends or distributions declared by the issuer of the Underlying Interest, or any cash dividend or distribution declared by the issuer of the Underlying Interest if such dividend or distribution is less than the Canadian dollars equivalent of US\$ 0.125 per share provided that, in the case of a contract that is listed with a unit of trading greater than 100 shares, the applicable threshold shall be the Canadian dollars equivalent of US\$ 12.50 per contract.
- 4) It shall be the general rule that there will be no adjustments of Futures and Similar Instruments to reflect ordinary cash dividends or distributions, or ordinary stock dividends or distributions, or ordinary trust unit dividends or distributions declared by the issuer of the Underlying Interest if such dividend or distribution is less than the Canadian dollars equivalent of US\$ 0.125 per share provided that, in the case of a contract that is listed with a unit of trading greater than 100 shares, the applicable threshold shall be the Canadian dollars equivalent of US\$ 12.50 per contract.
- 5)
  - i) For all Options and Similar Instruments it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar event whereby one or more whole number of additional shares of the Underlying Interest are issued with respect to each outstanding share, each Option and Similar Instruments covering that Underlying Interest shall be increased by the same number of additional contracts as the number of additional shares issued with respect to each share of the Underlying Interest, and the Exercise Price per share in effect immediately prior to such event shall be proportionately reduced, and the Unit of Trading shall remain the same.
  - ii) For all Options and Similar Instruments it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar event whereby other than a whole number of shares of the Underlying Interest is issued in respect of each outstanding share, the Exercise Price in effect immediately prior to such event shall be proportionately reduced, and the Unit of Trading shall be proportionately increased.
  - iii) For all Options and Similar Instruments it shall be the general rule that in the case of a reverse stock split, consolidation or combination of shares, or similar event, each Option and Similar Instruments covering the affected Underlying Interest shall be adjusted, solely for purposes of determining the property deliverable upon exercise of the Option and Similar Instruments, by decreasing the Unit of Trading to reflect the number of shares eliminated. If an adjustment is made in accordance with the preceding sentence, the Unit of Trading for all such adjusted series of Options and Similar Instruments shall remain unchanged for purposes of determining the aggregate Exercise Price of the Option and Similar Instruments and for purposes of determining the premium for any such Option and Similar Instruments purchased and sold.
  - iv) For all Futures and Similar Instruments it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit



distribution, trust unit split or similar event whereby one or more whole number of additional shares of the Underlying Interest are issued with respect to each outstanding share, each Futures and Similar Instruments covering that Underlying Interest shall be increased by the same number of additional contracts as the number of additional shares issued with respect to each share of the Underlying Interest, the last Settlement Price established immediately before such event shall be proportionately reduced, and the Unit of Trading shall remain the same.

- v) For all Futures and Similar Instruments it shall be the general rule that in the case of a stock dividend, stock distribution, stock split, trust unit dividend, trust unit distribution, trust unit split or similar event whereby other than a whole number of shares of the Underlying Interest is issued in respect of each outstanding share, the last Settlement Price established immediately before such event shall be proportionately reduced, and the Unit of Trading shall be proportionately increased.
- vi) For all Futures and Similar Instruments it shall be the general rule that in the case of a reverse stock split, consolidation or combination of shares, or similar event, each Futures and Similar Instruments covering the affected Underlying Interest shall be adjusted, solely for purposes of determining the property deliverable in respect of such Futures and Similar Instruments, by decreasing the Unit of Trading to reflect the number of shares eliminated. If an adjustment is made in accordance with the preceding sentence, the Unit of Trading for all such adjusted Futures and Similar Instruments shall remain unchanged for purposes of determining the aggregate settlement value of the Futures and Similar Instruments payable upon delivery and for purposes of determining the settlement value for any such Futures and Similar Instruments purchased and sold.

- 6) It shall be the general rule that in the case of any distribution made with respect to shares of an Underlying Interest, other than ordinary dividends or distributions subject to Subsection (3) and (4) of this Section A-902 and other than dividends or distributions for which adjustments are provided in Subsection (5) of this Section A-902, if an adjustment is determined by the Adjustment Committee to be appropriate, for Options and Similar Instruments:

- i) the Exercise Price in effect immediately prior to such event shall be reduced by the value per share of the distributed property, in which event the Unit of Trading shall not be adjusted, or
- ii) the Unit of Trading in effect immediately prior to such event shall be adjusted so as to include the amount of property distributed with respect to the number of shares of the Underlying Interest represented by the Unit of Trading in effect prior to such adjustment, in which event the Exercise Price shall not be adjusted;

for all other Futures and Similar Instruments:

- i) the last Settlement Price established immediately before such event shall be reduced by the value per share of the distributed property, in which event the Unit of Trading shall not be adjusted, or
- ii) the Unit of Trading in effect immediately prior to such event shall be adjusted so as to include the amount of property distributed with respect to the number of shares of the Underlying Interest represented by the Unit of Trading in effect prior to such adjustment, in which event the Settlement Price shall not be adjusted.

- iii) The Adjustment Committee shall, with respect to adjustments under this Subsection or any other Subsection of this Section A-902, have the authority to determine the value of distributed property.
- 7) In the case of any event for which adjustments are not provided in any of the foregoing Subsections of this Section A-902, the Adjustment Committee may make such adjustments, if any, with respect to the characteristics of the Derivative Instrument affected by such event as the Adjustment Committee determines.
- 8) Adjustments pursuant to this Section A-902 as a general rule shall become effective in respect of Derivative Instruments outstanding on the “ex-dividend date” established by the exchange or exchanges on which the Underlying Interest is traded. In the event that the “ex-dividend date” for an Underlying Interest traded on exchanges differs from one exchange to another, the Adjustment Committee shall deem the earliest date to be the “ex-dividend date” for the purposes of this Section A-902. “Ex-dividend dates” established by any other exchange or exchanges on which an Underlying Interest may be traded shall be disregarded.
- 9) It shall be the general rule that (i) all adjustments of the Exercise Price of an outstanding Option and Similar Instruments shall be rounded to the nearest adjustment increment, (ii) when an adjustment causes an Exercise Price to be equidistant between two adjustment increments, the Exercise Price shall be rounded up to the next highest adjustment increment, (iii) all adjustments of the Unit of Trading shall be rounded down to eliminate any fraction, and (iv) if the adjustment is made pursuant to subparagraph (5)(iii) above, and the Unit of Trading is rounded down to eliminate a fraction, the value of the fractional share so eliminated as determined by the Adjustment Committee shall be added to the Unit of Trading, or if the adjustment is made pursuant to subparagraph (5)(ii) above, and the Unit of Trading is rounded down to eliminate a fraction, the adjusted Exercise Price may be further adjusted, to the nearest adjustment increment, to reflect any diminution in the value of the Option and Similar Instruments resulting from the elimination of the fraction.
- 10) It shall be the general rule that (i) all adjustments of the Settlement Price of an outstanding Futures and Similar Instruments shall be rounded to the nearest adjustment increment, (ii) when an adjustment causes a Settlement Price to be equidistant between two adjustment increments, the settlement price shall be rounded up to the next highest adjustment increment, (iii) all adjustments of the Unit of Trading shall be rounded down to eliminate any fraction, and (iv) if the adjustment is made pursuant to subparagraph (5)(vi) above, and the Unit of Trading is rounded down to eliminate a fraction, the value of the fractional share so eliminated as determined by the Adjustment Committee shall be added to the Unit of Trading, or if the adjustment is made pursuant to subparagraph (5)(v) above, and the Unit of Trading is rounded down to eliminate a fraction, the adjusted Settlement Price may be further adjusted, to the nearest adjustment increment, to reflect any diminution in the value of the Futures and Similar Instruments resulting from the elimination of the fraction.
- 11) Notwithstanding the general rules set forth in Subsections (3) through (9) of this Section A-902 or which may be set forth as interpretations and policies under this Section A-902, the Adjustment Committee shall have the power to make exceptions in those cases or groups of cases in which, in applying the standards set forth in Subsection (2) thereof the Adjustment Committee shall determine such exceptions to be appropriate. However, the general rules shall be applied unless the

Adjustment Committee affirmatively determines to make an exception in a particular case or group of cases.

## INTERPRETATIONS AND POLICIES

1)

- i) Cash dividends or distributions (regardless of size) declared by the issuer of the Underlying Interest which the Adjustment Committee considers to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis or other regular basis, or which the Adjustment Committee considers to represent an acceleration or deferral of such payments as well as resumption of dividends or distributions will, as a general rule, be deemed to be “ordinary cash dividends or distributions” within the meaning of Subsection A-902(3).
- ii) Stock dividends or distributions, or trust unit dividends or distributions declared by the issuer of the Underlying Interest in an aggregate amount that per dividend or distribution does not exceed 10% of the number of shares or other units of the Underlying Interest outstanding as of the close of trading on the declaration date, and which the Adjustment Committee considers to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis or other regular basis, or which the Adjustment Committee considers to represent an acceleration or deferral of such payments will, as a general rule, be deemed to be “ordinary stock dividends or distributions” or “ordinary trust unit dividends or distributions” within the meaning of Subsection A-902(3).
- iii) Cash dividends or distributions declared by the issuer of the Underlying Interest which the Adjustment Committee considers to have been declared outside of a regular policy or practice of paying such dividends or distributions on a quarterly basis or other regular basis will be deemed to be “special cash dividends or distributions” within the meaning of Subsections A-902(3) and A-902(4).
- iv) Stock dividends or distributions, or trust unit dividends or distributions declared by the issuer of the Underlying Interest which the Adjustment Committee considers to have been declared outside of a regular policy and that exceeds 10% of the number of shares or other units of the Underlying Interest will be deemed to be “special stock dividends or distributions” or “special trust unit dividends or distributions” within the meaning of Subsections A-902(3) and A-902(4).
- v) Cash dividends or distributions declared by the issuer of the Underlying Interest which the Adjustment Committee considers to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis or other regular basis, or which the Adjustment Committee considers to represent an acceleration or deferral of such payment as well as resumption of dividends or distributions will, as a general rule, be deemed to be “ordinary cash dividends or distributions” within the meaning of Subsection A-902(4).
- vi) Stock dividends or distributions or trust unit dividends or distributions by the issuer of the Underlying Interest which the Adjustment Committee considers to have been declared pursuant to a policy or practice of paying such dividends or distributions on a quarterly basis or other regular basis, or which the Adjustment Committee considers to represent an acceleration or deferral of such payment, will, as a general

rule, be deemed to be “ordinary stock dividends or distributions” or “ordinary trust unit dividends or distribution” within the meaning of Subsection A-902(4). The Adjustment Committee will ordinarily adjust for other stock and trust units dividends and distributions.

Nevertheless, the Adjustment Committee will determine, on its sole discretion, on a case-by-case basis whether other dividends or distributions are “ordinary dividends or distributions” or whether they are dividends or distributions for which adjustments should be made. In making such determinations, the Adjustment Committee may take into account such factors as it deems appropriate, including, without limitation, the issuer’s stated dividend payment policy, the issuer’s characterization of a particular dividend or distribution as “regular”, “special”, “accelerated” or “deferred”, whether the dividend can be differentiated from other dividends (if any) paid on a quarterly or other regular basis, and the issuer’s dividend payment history.

Normally, the Adjustment Committee shall classify a cash dividend or cash distribution as non-ordinary when it believes that similar cash dividends or cash distributions will not be paid on a quarterly or other regular basis. Notwithstanding that the Adjustment Committee has classified a cash dividend or cash distribution as non-ordinary, at a certain time, it may classify subsequent cash dividends or cash distributions of a similar nature as ordinary if (i) the issuer discloses that it intends to pay such dividends or distributions on a quarterly or other regular basis, (ii) the issuer has paid such dividends or distributions for four or more consecutive months or quarters or two or more years after the initial payment, whether or not the amounts paid were the same from period to period, or (iii) the Adjustment Committee determines for other reasons that the issuer has a policy or practice of paying such dividends or distributions on a quarterly or other regular basis.

2)

- i) Adjustments will not ordinarily be made to reflect the issuance of so-called “poison pill” rights that are not immediately exercisable, trade as a unit or automatically with the Underlying Interest, and may be redeemed by the issuer. In the event such rights become exercisable, begin to trade separately from the Underlying Interest, or are redeemed, the Adjustment Committee will determine whether adjustments are appropriate.
- ii) Except as provided above in the case of certain “poison pill” rights, adjustments for rights distributions will ordinarily be made to Futures and Similar Instruments. When an adjustment is made for a rights distribution, the Unit of Trading in effect immediately prior to the distribution will ordinarily be adjusted to include the number of rights distributed with respect to the number of shares of the Underlying Interest comprising the Unit of Trading. If, however, the Adjustment Committee determines that the rights are due to expire before the time they could be exercised upon delivery under the contract, then delivery of the rights will not be required. Instead, the Adjustment Committee will ordinarily adjust the last Settlement Price established before the rights expire to reflect the value, if any, of the rights as determined by the Adjustment Committee in its sole discretion.
- iii) Adjustments will not be made to reflect a take-over bid or issuer bid made for the Underlying Interest, whether such offer is for cash, Securities or other property. This policy will apply without regard to whether the price of the Underlying Interest may be favourably or adversely affected by the offer or whether the offer may be deemed to be “coercive”. Outstanding Derivative Instruments ordinarily will be adjusted to

- reflect a merger, amalgamation, arrangement or similar event that becomes effective following the completion of a take-over bid.
- iv) Adjustments will not be made to reflect changes in the capital structure of an issuer where all of the Underlying Interest in the hands of the public (other than dissenters' shares) are not changed into another Security, cash or other property. For example, adjustments will not be made merely to reflect the issuance (except as a distribution on an Underlying Interest) of new or additional debt, stock, trust units, or options, warrants or other securities convertible into or exercisable for the Underlying Interest, the refinancing of the issuer's outstanding debt, the repurchase by the issuer of less than all of the Underlying Interest outstanding or the sale by the issuer of significant capital assets.
  - v) When an Underlying Interest is converted into a right to receive a fixed amount of cash, such as in a merger, amalgamation, arrangement or similar event, outstanding Options and Similar Instruments will be adjusted to require the delivery upon exercise of cash in an amount per share or unit equal to the conversion price. As a result of such adjustments, the value of all outstanding In-the-money Options and Similar Instruments will become fixed, and all At-the-money and Out-of-the-money Options and Similar Instruments will become worthless. Futures and Similar Instruments will be adjusted to replace such Underlying Interest with such fixed amount of cash as the Underlying Interest, and the Unit of Trading shall remain unchanged.
  - vi) In the case of a spin off or similar event by the issuer of an Underlying Interest which results in a property distribution, Derivative Instruments will be adjusted to reflect such distribution. The value of the property distributed shall be reflected in the deliverable shares.
  - vii) In the case of a corporate reorganization or similar occurrence by the issuer of an Underlying Interest which results in an automatic share-for-share exchange of the Underlying Interest for shares of another class in the capital of the issuer or in the resulting company, the Derivative Instruments on the Underlying Interest will ordinarily be adjusted by replacing such Underlying Interest with a like number of units of the shares of such other class or of the resulting company. Because the Securities are generally exchanged only on the books of the issuer and/or the resulting company, as the case may be, and are generally not exchanged physically, deliverable shares will ordinarily include certificates that are denominated on their face as shares in the original class of shares of the original issuer, but which, as a result of the corporate transaction, represent shares in the other class or in the resulting company, as the case may be.
  - viii) When an Underlying Interest is converted in whole or in part into a debt security and/or a preferred stock, as in a merger, and interest or dividends on such debt security or preferred stock are payable in the form of additional units thereof, outstanding Derivative Instruments that have been adjusted to call for delivery of such debt security or preferred stock shall be further adjusted, effective as of the ex-date for each payment of interest or dividends thereon, to call for delivery of the securities distributed as interest or dividends thereon.
  - ix) Notwithstanding paragraph 1) of Interpretations and Policies under Section A-902, (i) "ordinary dividends or distributions" within the meaning of paragraphs (3) and (4) of Section A-902 shall not, as a general rule, be deemed to include distributions of short-term or long-term capital gains by the issuer of the Underlying Interest, and

(ii) "ordinary dividends or distributions" within the meaning of paragraphs (3) and (4) of Section A-902 shall not, as a general rule, be deemed to include other distributions by the issuer of the Underlying Interest, provided that (a) the issuer is an entity that holds securities or replicates holding of securities that track the performance of an index that underlies a class of index Options or index Futures, and the distribution on the Underlying Interest includes or reflects a dividend or other distribution on a security part of the index that resulted in an adjustment of the index divisor; or (b) the distribution on the Underlying Interest includes or reflects a dividend or other distribution on a security part of the index (I) that results in an adjustment of Derivative Instruments on other Underlying Interest pursuant to clause (ii)(a), or (II) that is not deemed an ordinary dividend or distribution under Interpretation (1) above.

Adjustments of the terms of Derivative Instruments on such Underlying Interest for distributions described in clause (i) or (ii) above shall be made in accordance with paragraph (6) of Section A-902, unless the Adjustment Committee determines, on a case-by-case basis, not to adjust for such a distribution; provided, however, that no adjustment shall be made for any such distribution where the amount of the adjustment would be less than the Canadian dollars equivalent of US \$0.125 per share or units of the Underlying Interest and provided that, in the case of a contract that is listed with a unit of trading greater than 100 shares, the applicable threshold shall be the Canadian dollars equivalent of US\$12.50 per contract.



## **RULE A-10 RECOVERY PROCESS**

### **Section A-1001 RECOVERY POWERS**

- (1) Upon the declaration by the Corporation of the beginning of a Recovery Process in accordance with Section A-1002, the Corporation may exercise against any Clearing Member which is not a Limited Clearing Member any of its rights and remedies set out in this Rule A-10 and the related provisions of the Default Manual (each of which rights and remedies, a **“Recovery Power”**).
- (2) Upon the declaration by the Corporation of the beginning of a Recovery Process in accordance with Section A-1002, the Corporation may exercise a Reduced Amounts Distribution against a Limited Clearing Member subject to and in accordance with Section A-1005 and the related provisions of the Default Manual; provided, however, that the Corporation shall not have the right to exercise any other Recovery Power against any Limited Clearing Member without the Limited Clearing Member’s consent.

### **Section A-1002 DECLARATION OF RECOVERY PROCESS**

- (1) During a Default Management Period, the Corporation may declare the commencement of a Recovery Process, subject to approval by the Board, upon the occurrence of either of the following events (each, **“Recovery Event”**):
  - (a) the Corporation, acting reasonably, determines that its Recovery Losses in connection with the suspension of the applicable Clearing Member may exceed the sum of the following amounts (which shall collectively be referred to as the **“Default Waterfall”**):
    - (i) the suspended Clearing Member’s Margin Deposit (including, without limitation, deposits required or made as Margin and Clearing Fund);
    - (ii) the Corporation’s own capital resources specifically set aside for such purpose; and
    - (iii) 200% of the aggregate value of all Clearing Fund deposits required at the beginning of the Default Management Period of the Clearing Members which have not been suspended during the Default Management Period; or
  - (b) after the exercise by the Corporation of its rights and remedies set out in Rule A-4 in connection with the suspension of the applicable Clearing Member, the Corporation reasonably determines that it has been, or will likely be, unable to close-out all the positions of the suspended Clearing Member.
- (2) Upon the declaration of the commencement of a Recovery Process, the Corporation will notify all Clearing Members, the Exchanges, any regulatory agency having oversight over the Corporation, the Bank of Canada and any such other Entities as the Corporation may consider appropriate.



### **Section A-1003**

#### **RECOVERY PROCESS**

“**Recovery Process**” means any of the rights and remedies of the Corporation set out in this Rule and the related provisions of the Default Manual.

### **Section A-1004**

#### **RECOVERY LOSSES**

“**Recovery Losses**” means any obligations, losses or expenses incurred or sustained by the Corporation as a result of, or in connection with, the suspension of a Clearing Member.

### **Section A-1005**

#### **REDUCED AMOUNTS DISTRIBUTION**

- (1) At any time during a Default Management Period, after a declaration by the Corporation of the commencement of a Recovery Process, if, in the reasonable opinion of the Corporation, the Recovery Event may result in the Corporation incurring Recovery Losses in excess of the amounts available to it as part of the Default Waterfall, the Corporation may on any Business Day during the Reduced Amounts Distribution Period (as defined below) withhold the payment or transfer of all or a portion of the amounts owed by the Corporation and which are Qualified Amounts (as defined below) to a Clearing Member that has not been suspended. The exercise of such power to withhold payment or transfer shall constitute a Recovery Power referred to as the “**Reduced Amounts Distribution**”.
- (2) Before exercising the Reduced Amounts Distribution, the Corporation shall notify all Clearing Members of the date of the commencement of a period during which such power will be exercised (the “**Reduced Amounts Distribution Period**”). There shall be no more than one Reduced Amounts Distribution Period during any given Default Management Period and no Reduced Amounts Distribution Period may be in effect for more than four (4) consecutive Business Days during any given Default Management Period. The Corporation shall notify all Clearing Members of the date of the termination of the Reduced Amounts Distribution Period. The amount retained by the Corporation in the exercise of the Reduced Amounts Distribution, whether converted into cash or otherwise (the “**Retained Amount**”), may be used by the Corporation during or after the Reduced Amounts Distribution Period, in accordance with paragraph A-1005(6). The Corporation shall resume the payment or transfer of the Qualified Amounts becoming due after the termination of the Reduced Amounts Distribution Period.
- (3) On each Business Day of the Reduced Amounts Distribution Period (for the purpose of this Section A-1005, each, a “**Calculation Date**”), the Corporation shall exercise a Reduced Amounts

Distribution to any of the following (each, a “**Qualified Amount**”) subject to the provisions of paragraph A-1005(5) below:

- (a) In respect of all Futures and Options to which a Clearing Member is a party on a Calculation Date, the net amount owed by the Corporation to such Clearing Member in respect of:
  - (i) The net value of the Gains and Losses for that day in respect of all such Clearing Member’s Open Positions in Futures;
  - (ii) The Net Daily Premium payable or receivable by such Clearing Member on that day, in respect of Options issued by the Corporation and purchased or sold on the Exchange; and
  - (iii) The net agreed premium payable or receivable by such Clearing Member on that day, in respect of Options issued by the Corporation, bilaterally negotiated, or entered into on any Acceptable Marketplaces.
- (b) In respect of all Fixed Income Transactions to which a Clearing Member, other than a Limited Clearing Member, is a party on the Calculation Date (excluding, for the avoidance of doubt, any Repurchase Transaction for which the Repurchase Date is the Calculation Date, and any Cash Buy Sell Trade for which the Purchase Date is the Calculation Date), the Corporation shall determine the amount that would otherwise be owed by the Corporation to the Clearing Member (the “**RAD Net Gain**”) which shall be determined based on the aggregate net sum of the differences, in respect of each of those Transactions, between (i) the Variation Margin Requirement which was required in respect of a Transaction on the Calculation Date and (ii) the Variation Margin Requirement which was required for the same Transaction on the last Business Day prior to the commencement of the Reduced Amounts Distribution Period. On each Business Day of the Reduced Amounts Distribution Period, the Qualified Amount shall equal the difference between the RAD Net Gain calculated for such Clearing Member and the sum of Retained Amounts retained by the Corporation on each previous Business Day of the Reduced Amounts Distribution Period for the same Transactions.
- (c) In respect of all Fixed Income Transactions to which a Limited Clearing Member is a party on a Calculation Date (excluding, for the avoidance of doubt, any Repurchase Transaction for which the Repurchase Date is the Calculation Date, and any Cash Buy Sell Trade for which the Purchase Date is the Calculation Date) and that were, before submission for clearing with the Corporation, entered into by the Limited Clearing Member and the suspended Clearing Member, the Corporation shall calculate the amount that would otherwise be owed by the Corporation to the Limited Clearing Member (the “**LCM RAD Net Gain**”) which shall be determined based on the aggregate net sum of the differences, in respect of each of those Transactions, between (i) the Variation Margin Requirement which was required in respect of a Transaction on the Calculation Date and (ii) the Variation Margin Requirement which was required for the same Transaction on the last Business Day prior to the commencement of the Reduced Amounts Distribution Period. On each Business Day of the Reduced Amounts Distribution Period, the Qualified Amount shall be equal to the difference between the LCM RAD Net Gain calculated for such Limited Clearing Member and the sum of Retained Amounts retained by the Corporation

on each previous Business Day of the Reduced Amounts Distribution Period for the same Transactions.

- (4) The notification by the Corporation to a Clearing Member of the value of the Retained Amount shall extinguish the Corporation's obligation to pay or transfer any such amount to the Clearing Member.
- (5) At the end of each Business Day of the Reduced Amounts Distribution Period, the Corporation shall notify each Clearing Member of the Retained Amount relating to it as follows:
  - (a) For each Clearing Member, other than a Limited Clearing Member, the Corporation shall calculate a net Retained Amount by aggregating the Qualified Amount in respect of all Futures and Options Transactions to which the Clearing Member is a party on such Business Day and the net Qualified Amount in respect of all Fixed Income Transactions to which the Clearing Member is a party on such Business Day.
  - (b) Notwithstanding Section D-607, for each Limited Clearing Member, the Corporation shall calculate a net Retained Amount by determining the net Qualified Amount in respect of all Transactions to which the Limited Clearing Member is a party on such Business Day and that were, before submission for clearing with the Corporation, entered into by the Limited Clearing Member and the suspended Clearing Member. During the Reduced Amount Distribution Period, the Corporation shall calculate separately (i) the aggregate Variation Margin Requirement in respect of all Transactions to which the Clearing Member is a party that were, before submission for clearing with the Corporation, entered into by the Limited Clearing Member and the suspended Clearing Member, and (ii) the aggregate Variation Margin Requirement in respect of all the Transactions to which the Limited Clearing Member is a party, excluding those Transactions that were, before submission for clearing with the Corporation, entered into by the Limited Clearing Member and the suspended Clearing Member.
- (6) The Corporation shall only use the Retained Amount for the purpose of satisfying or otherwise settling Recovery Losses, after exhausting the Default Waterfall, all in accordance with the provisions set out in the Default Manual.
- (7) In the case of the suspension of multiple Clearing Members, the Corporation shall only use the Retained Amount withheld in connection with Fixed Income Transactions that were, before submission for clearing with the Corporation, entered into by the Limited Clearing Member and a suspended Clearing Member, for the purpose of satisfying or otherwise settling Recovery Losses incurred in connection with the suspension of such Clearing Member.
- (8) Except as otherwise specified in this Section A-1005, the implementation of the Reduced Amounts Distribution does not affect the calculation and determination by the Corporation of amounts otherwise owed.

## Section A-1006

### RECOVERY LOSS CASH PAYMENT

- (1) At any time during a Default Management Period, after a declaration by the Corporation of the commencement of a Recovery Process and the exercise of the Corporation's Reduced Amounts Distribution power in accordance with Section A-1005, if, in the reasonable opinion of the Corporation, the Recovery Event may result in the Corporation incurring obligations, losses or expenses in an amount in excess of the sum of the resources constituting the Default Waterfall and the Retained Amount, and such amount is known or can reasonably be determined, the Corporation may require each Clearing Member which has not been suspended during the Default Management Period to pay to the Corporation its *pro rata* proportion of the Recovery Loss Cash Payment.
- (2) The Corporation shall determine the total amount of the Recovery Loss Cash Payment and calculate the proportion to be paid by each Clearing Member that is not a suspended Clearing Member, *pro rata*, based on the quotient obtained by dividing the amount of each Clearing Member's Clearing Fund deposit required at the beginning of the Default Management Period by the aggregate amount of Clearing Fund deposits required at the beginning of the Default Management Period of all Clearing Members other than the suspended Clearing Members.
- (3) The Corporation shall notify each Clearing Member that is not a suspended Clearing Member of the amount payable by such Clearing Member as Recovery Loss Cash Payment.
- (4) The aggregate amounts payable in Recovery Loss Cash Payments by a Clearing Member during a Default Management Period shall not exceed the value of such Clearing Member's Clearing Fund deposit required at the beginning of the Default Management Period.
- (5) The Recovery Loss Cash Payment shall be paid by each Clearing Member no later than the first Settlement Time on the Business Day following the date the Corporation notifies Clearing Members in writing that the Recovery Loss Payment is due, unless any other date is specified in the Corporation's notice.
- (6) A Recovery Loss Cash Payment must be paid to the Corporation in Cash and, once received, will belong to the Corporation. The Corporation shall not be required to pay any interest in respect of any Recovery Loss Cash Payment.
- (7) The Corporation shall use the Recovery Loss Cash Payment after exhausting the funds available to the Corporation as part of the Default Waterfall and the Retained Amount for the sole purpose of satisfying or otherwise settling Recovery Losses.

## Section A-1007

### RECOVERY AUCTION

- (1) At any time during a Default Management Period, after a declaration by the Corporation of the commencement of a Recovery Process and the determination by the Corporation that it has been unable to transfer, close-out, or otherwise liquidate all the positions of the suspended Clearing Member(s), following the exercise of the rights and remedies set out in Rule A-4, the Corporation may hold a Recovery Auction with respect to the Fixed Income Transactions.

- (2) All Clearing Members (including Limited Clearing Members) will be entitled to participate to the Recovery Auction, in accordance with the methodology set forth in the Default Manual.

### Section A-1008 VOLUNTARY CONTRACT TEAR-UP

- (1) At any time during a Default Management Period, after a declaration by the Corporation of the commencement of a Recovery Process and the determination by the Corporation that it has been unable to transfer, close-out, or otherwise liquidate all the positions of the suspended Clearing Members, following the exercise of the rights and remedies set out in Rule A-4, and, in respect of the Fixed Income Transactions, following the holding of the Recovery Auction, the Corporation may implement voluntary contract tear-up (“**Voluntary Contract Tear-Up**”), on the conditions and in the manner set forth in this Section A-1008.
- (2) The Corporation may implement Voluntary Contract Tear-Up for any Futures, Options or Over-the-Counter Instruments cleared by the Corporation.
- (3) On the Business Day the Corporation determines to implement the Voluntary Contract Tear-Up, the Corporation shall notify, before the Close of Business, all Clearing Members of its intention to implement Voluntary Contract Tear-up on that same Business Day in respect of any of the suspended Clearing Member Open Positions which have not been terminated. At the end of that same Business Day, the Corporation shall determine the opposite Open Positions which could be terminated. In making this determination, the Corporation shall use all commercially reasonable efforts to allocate all such terminable Open Positions *pro rata* on the basis of the net opposite Open Positions of each Clearing Member which has not been suspended. At the Close of Business on that same Business Day, after the notification to the Clearing Members of the Retained Amount, if applicable, the Corporation shall notify each Clearing Member of the terminable Open Positions allocated to it and the termination value of such Open Positions (the “**Tear-Up Value**”) as determined in accordance with this Section A-1008, and each Clearing Member will be prompted to confirm or decline, to the Corporation, within the time period specified in the notice, the Voluntary Contract Tear-Up for each of the terminable Open Positions allocated to it by the Corporation. The Corporation shall then automatically terminate all the Open Positions which a Clearing Member has consented to terminate.
- (4) Tear-Up Value Determination
  - (a) In respect of each Future Open Position, the Corporation shall determine the Tear-Up Value of each terminable Open Position using the last Settlement Price reported by the Exchange on the same Business Day, and, in the event of the unavailability or inaccuracy of such price, the Corporation shall fix the last Settlement Price in accordance with the best information available as to market price.
  - (b) In respect each Option Open Position, the Corporation shall determine the Tear-Up Value of each terminable Open Position using the Option Price reported by the Exchange, or the last OTCI Option Price, as the case may be, and, in the event of the unavailability or inaccuracy of such price, the Corporation shall fix such closing price in accordance with the best information available as to market price.

- (c) In respect of Fixed Income Transactions, the Corporation shall determine the Tear-Up Value in accordance with the usual pricing mechanism used to calculate the Net Variation Margin Requirement in accordance with Rule D-6. The Corporation shall terminate any other outstanding payment or transfer obligations in respect of all the Fixed Income Transactions which a Clearing Member has consented to terminate.
- (5) Tear-Up Amount and Settlement
- (a) The Corporation shall then calculate for each Clearing Member, in respect of all Futures Open Positions which the Clearing Member has agreed to terminate, an amount (the “**Future Tear-Up Amount**”), representing the aggregate net sum of Tear-Up Values that is payable by the Corporation to the Clearing Member or by the Clearing Member to the Corporation. The Future Tear-Up Amounts shall be paid no later than the First Settlement Time on the Business Day following the date the Clearing Member has agreed to the Voluntary Contract Tear-Up subject to Section A-801(2)(a).
  - (b) The Corporation shall then calculate for each Clearing Member, in respect of all Options Open Positions which the Clearing Member has agreed to terminate, an amount (the “**Option Tear-Up Amount**”), representing the aggregate net sum of Tear-Up Values that is payable by the Corporation to the Clearing Member or by the Clearing Member to the Corporation. The Option Tear-Up Amounts shall be paid no later than the First Settlement Time on the Business Day following the date the Clearing Member has agreed to the Voluntary Contract Tear-Up subject to Section A-801(2)(a).
  - (c) The Corporation shall then calculate for each Clearing Member, in respect of all Fixed Income Transactions which the Clearing Member has agreed to terminate, the Clearing Member’s final Variation Margin Requirement associated with the Open Positions which have been terminated. Such Variation Margin Requirement shall be required to be deposited by the usual Settlement Time for the Net Variation Margin Requirement.

### Section A-1009 NO LIMITED RECOURSE

Nothing in this Rule shall limit the actions that may be taken by the Corporation pursuant to Rule A-4 against a Non-Conforming Clearing Member or a suspended Clearing Member.

### Section A-1010 NO EVENT OF DEFAULT

No action or omission of the Corporation as part of the implementation of the Recovery Process in accordance with Rule A-10 and the related provisions of the Default Manual shall constitute an Event of Default. For further clarity, each Clearing Member retains its close-out rights pursuant to Section A-409 in connection with any Event of Default which is not arising in connection or as a result of the Recovery Process.



### **Section A-1011**

#### **NO ADJUSTMENT OF PAYMENT**

Nothing in this Rule shall affect a Clearing Member's obligation to satisfy any other obligation under the Rules.

### **Section A-1012**

#### **APPLICATION OF PAYMENTS**

No amount paid or deposited by a Clearing Member in connection with a Recovery Event shall be applied by the Corporation to satisfy or to compensate the Corporation for obligations other than those arising in connection with such Recovery Event.

### **Section A-1013**

#### **RECOVERY OF LOSS**

- (1) Notwithstanding the remedies available to the Corporation under the Rules and to the extent that a Recovery Loss has been sustained by the Corporation, the suspended Clearing Member shall remain liable to the Corporation for the full amount of such Recovery Loss until its repayment.
- (2) After the end of the Default Management Period, if the amount of Recovery Loss Cash Payments and Retained Amount levied on Clearing Members as part of the Recovery Process is in excess of the total amount of Recovery Loss incurred by the Corporation, the Corporation shall pay or credit an amount equal to such excess to each Clearing Member to whom the amount was charged in proportion to the amount paid by such Clearing Member in Recovery Loss Cash Payments and Retained Amount determined in accordance with the provisions set out in the Default Manual, so long as such Clearing Member is not itself a suspended Clearing Member.
- (3) Notwithstanding the extinguishment of the Corporation's obligation to pay the value of the Retained Amount set out in Subsection A-1005(4) and the provisions of Subsection A-1013(2), if, after the end of a Default Management Period, any Retained Amount levied on a Limited Clearing Member in connection with Fixed Income Transactions that were, before submission for clearing with the Corporation, entered into by such Limited Clearing Member and a suspended Clearing Member, are in excess of the Limited Clearing Member's share of the total amount of Recovery Loss determined in accordance with the provisions set out in the Default Manual and incurred by the Corporation in connection with the suspension of such suspended Clearing Member, the Corporation shall pay or credit to such Limited Clearing Member, an amount equal to such excess so long as the Limited Clearing Member is not itself a suspended Clearing Member.
- (4) If a Recovery Loss that has been satisfied with an amount levied from a Clearing Member as part of the Recovery Process is subsequently recovered by the Corporation from the Clearing Member whose suspension led to the Recovery Loss, or otherwise, in whole or in part, the net amount of such recovery shall be paid or credited to the Clearing Members to whom the amount was charged in proportion to the amount paid by each of them in Recovery Loss Cash Payments and Retained Amount whether or not they remain Clearing Members. If, after paying or crediting all Clearing Members for all their Recovery Loss Cash Payments and Retained Amounts, a net balance remains,



the Corporation shall pay or credit the Clearing Members with the net balance, in accordance with Section A-612.

- (5) Any Clearing Member that has been charged a Recovery Loss Cash Payment or Retained Amount under Sections A-1005 or A-1006, shall have the right to claim from the Clearing Member whose suspension led to the Recovery Losses being charged to it and the suspended Clearing Member shall be obliged to reimburse such other Clearing Member the amount paid by the Clearing Member to the extent such amount has not already been recovered by the Corporation pursuant to Subsections A-1013(2), (3) or (4).

## **PART B – OPTIONS**

### **RULE B-1**

#### **CLEARING OF EXCHANGE TRANSACTIONS IN OPTIONS**

The provisions of this Part B shall apply only to Exchange Transactions which are trades in Options issued by the Corporation pursuant to these Rules and to those Clearing Members who are required to make a base deposit to the Clearing Fund for Options clearing as set out in Subsection A-601(2)(a).

#### **Section B-101**

##### **RESPONSIBILITY OF MEMBERS FOR EXCHANGE TRANSACTIONS**

Every Clearing Member shall be responsible for the clearance of its own Exchange Transactions and of the Exchange Transactions of each exchange member or non-member which has agreed with the Clearing Member that its transactions will be cleared by such Clearing Member. A copy of each such clearing agreement shall be provided to the Corporation upon its request.

#### **Section B-102**

##### **MAINTENANCE OF ACCOUNTS**

- (1) Every Clearing Member shall establish and maintain with the Corporation the following accounts:
  - (a) One or more Firm Account(s) which shall be confined to Firm Transactions of such Clearing Member;
  - (b) A separate Market Maker Account for each Market Maker employed or sponsored by such Clearing Member; and
  - (c) One or more Client Account(s), which shall be confined to the Transactions of its Clients, if the Clearing Member conducts business with the public in Options.

#### **Section B-103**

##### **AGREEMENT REGARDING ACCOUNTS**

Every Clearing Member agrees as follows:

- (1) In respect of any Firm Account:
  - (a) the Corporation shall have a first priority security interest and hypothec in all Long Positions, Short Positions, Securities, Underlying Interest, Underlying Interest Equivalent, Margin, and other Margin Deposits in respect of such account as security for all of the Clearing Member's obligations to the Corporation;
  - (b) the Corporation shall have the right to net all Opening Writing Transactions and Closing Writing Transactions against all Opening Purchase Transactions and Closing Purchase

Transactions with respect to a same Series of Options effected in such account, whether or not Transactions are denominated in the same currency; and

- (c) the Corporation may close out the Long Positions and Short Positions in such account and apply the proceeds thereof to the obligations of the Clearing Member to the Corporation, at any time, without prior notice to the Clearing Member.
- (2) Each Clearing Member is responsible for all obligations owed to the Corporation in respect of every account opened by or in respect of such Clearing Member.
- (3) Amounts standing to the credit of a Clearing Member's accounts may be applied by the Corporation towards the payment of any sum whatsoever due by the Clearing Member to the Corporation, subject to Section B-109.
- (4) Each Market Maker Account shall be confined to the Exchange Transactions of the Market Maker for which it is established.
- (5) Each Market Maker shall enter into an agreement with the Clearing Member which shall provide that the Market Maker agrees with the Clearing Member and the Corporation that:
  - (a) the Corporation shall have a first priority security interest and hypothec in all Long Positions, Securities, Underlying Interest, Underlying Interest Equivalent, Margin, and other Margin Deposits in respect of such account as security for the Clearing Member's obligations to the Corporation in respect of all Exchange Transactions effected through such account, Short Positions maintained in such account and Exercise Notices assigned to such account;
  - (b) the Corporation shall have the right to net all Opening Writing Transactions and Closing Writing Transactions against all Opening Purchase Transactions and Closing Purchase Transactions with respect to a same Series of Options effected in such account whether or not Transactions are denominated in the same currency; and
  - (c) the Corporation may close out the Long Positions and Short Positions in such account and apply the proceeds thereof to the obligations of the Clearing Member to the Corporation in respect of all Exchange Transactions effected through such account, Short Positions maintained in such account and Exercise Notices assigned to such account, at any time, without prior notice to the Market Maker or the Clearing Member.
- (6) Notwithstanding Subsection A-701(3), in respect of any Client Account:
  - (a) the Corporation shall not have a security interest and hypothec on the Long Positions in Options in such account but shall have a first priority security interest and hypothec to the extent set forth in these Rules on all other Margin Deposits deposited with the Corporation in respect of such account;
  - (b) the Corporation shall have the right to net all Opening Writing Transactions and Closing Writing Transactions against all Opening Purchase Transactions and Closing Purchase Transactions with respect to a same Series of Options effected in such account, whether or not Transactions are denominated in the same currency; and

- (c) the Corporation may close out the Long Positions and Short Positions in such account and apply the proceeds thereof to the obligations of the Clearing Member to the Corporation with respect to all the Transactions in such account, at any time, without prior notice to the Clearing Member or the Clients.

### **Section B-104**

#### **NOVATION**

Through novation, the Corporation acts as central counterparty between each Clearing Member.

All Options transactions that are submitted to the Corporation are registered in the name of the Clearing Member. Upon acceptance of the Transaction, novation occurs and the initial Transaction is replaced by two different transactions between the Corporation and each Clearing Member involved in the Transaction.

Each Clearing Member looks to the Corporation for the performance of the obligations under a Transaction and not to another Clearing Member. The Corporation shall be obligated to the Clearing Member in accordance with the provisions of these Rules. Furthermore, each client of a Clearing Member looks solely to the Clearing Member for performance of the obligations and not to the Corporation.

### **Section B-105**

#### **OBLIGATION OF PURCHASING CLEARING MEMBER**

The Clearing Member responsible for an Exchange Transaction which is either an Opening or Closing Purchase Transaction shall be obligated to pay the Corporation the amount of the premium agreed upon in such Exchange Transaction. Such payment shall be made as set forth in these Rules not later than the Settlement Time for such Exchange Transaction.

### **Section B-106**

#### **OBLIGATIONS OF THE CORPORATION**

An Exchange Transaction shall, subject to the fulfilment of the conditions precedent set forth in Sections B-108, be deemed to have been accepted by the Corporation at the time the trade information in respect of such Exchange Transaction is received by the Corporation from the Exchange. Notwithstanding the foregoing, the Corporation may reject any Exchange Transaction submitted for clearing by a Non Conforming Member. Upon the acceptance of an Exchange Transaction by the Corporation, the rights of the Clearing Members in respect of such transaction shall be solely against the Corporation and the Corporation shall be obligated to the Clearing Members in accordance with the provisions of these Rules. Upon acceptance of an Exchange Transaction, the Corporation shall be obligated as follows:

- (a) In an Opening Purchase Transaction, the Corporation shall be obligated to issue to the purchasing Clearing Member the Options purchased in such Exchange Transaction;
- (b) In a Closing Purchase Transaction, the Corporation shall be obligated to reduce the purchasing Clearing Member's Short Positions in the Series of Options involved in the account in which the Exchange Transaction was effected by the number of Options purchased in such Exchange Transaction;

- (c) In an Opening or Closing Writing Transaction, the Corporation shall be obligated to pay, at the time and in the manner specified by the Rules, to the writing Clearing Member the amount of the premium agreed upon in such Exchange Transaction.

### **Section B-107**

#### **ISSUANCE OF OPTIONS**

- (1) The Corporation shall be the issuer of all Options purchased in Exchange Transactions. Subject to the provisions of Section B-108, an Option shall be issued by the Corporation in every Opening Purchase Transaction upon the acceptance of such transaction by the Corporation pursuant to Section B-106.
- (2) An Option shall carry the rights and obligations set forth in Section B-110 and shall contain the variable terms as agreed upon by the purchasing Clearing Member and writing Clearing Member as shown on the trade information filed by them with the Exchange on which such Exchange Transaction occurred and which is transmitted to the Corporation. In the event of a discrepancy between the trade information filed with the Exchange and the information reported to the Corporation, the latter shall govern as between the Clearing Member and the Corporation.

### **Section B-108**

#### **EXCHANGE REPORT**

- (1) The acceptance of every Exchange Transaction and the issuance of every Option by the Corporation as provided in Sections B-106 and B-107 shall be subject to the condition that the Exchange on which such Exchange Transaction occurred shall have provided the Corporation with the trade information submitted by the purchasing Clearing Member and the writing Clearing Member as to:
  - (a) the identity of the purchasing Clearing Member and the writing Clearing Member;
  - (b) the Class and Series of Option;
  - (c) the premium per Unit of Trading;
  - (d) the number of contracts;
  - (e) in the case of a transaction in a Client Account, whether it is an opening or closing transaction; and
  - (f) such other information as may be required by the Corporation.

In the event any Exchange Transaction is rejected as herein provided, the Corporation shall promptly notify, either orally or in writing, the purchasing Clearing Member and all writing Clearing Members involved.

(2)

- (a) A closing transaction in a Client Account which has been reported to the Corporation at a time when the Corporation's records indicated no corresponding open position in such account shall be considered as an initial operation provided that the number of contracts indicated in Paragraph (1)(d) of this Section B-108 exceeds the number of contracts, if any, for which there is an existing position.
- (b) The Corporation shall promptly notify the Clearing Member of any change affecting either all or part of a closing transaction, aiming at transforming such closing transaction into an initial operation in accordance with Paragraph (2)(a) of this Section B-108.
- (3) The Corporation shall have no liability for any loss resulting from the untimely submission by an Exchange to the Corporation of the information described in Subsection (1) of this Section B-108.

### **Section B-109**

#### **PAYMENT TO THE CORPORATION**

- (1) On each Business Day immediately following the acceptance of an Exchange Transaction, the purchasing Clearing Member shall pay to the Corporation at or prior to the Settlement Time on such Business Day, all amounts due to the Corporation in the account in which such Exchange Transaction is effected. If the Corporation has not received such payment by the Settlement Time, the Corporation shall have the right to liquidate Transactions in such account and apply the proceeds thereof to the payment of the amounts due by such Clearing Member or apply any Margin Deposits of the Clearing Member; provided, however, the Corporation shall not apply Margin Deposits with respect to a Client Account for the payment of any amount owing on Transactions in any account other than the relevant Client Account, and further, the Corporation shall not apply any Margin Deposits with respect to a Market Maker Account for the payment of any amount owing on Transactions in any account other than that Market Maker Account. Notwithstanding the foregoing, if the Clearing Member does not identify its Deposits with respect to each of its accounts, the Corporation may without distinction apply the Clearing Member's Margin Deposit to offset any amounts due by the Clearing Member with respect to the relevant Exchange Transaction regardless of the account to which it is booked. If the Margin Deposits of the Clearing Member (as applicable) applied by the Corporation to the payment of the premium of such Exchange Transaction are insufficient to pay such premium in full, the resulting Long Position shall be subject to a lien, security interest and hypothec in favour of the Corporation and the Corporation shall have the right to close out or to exercise such Long Position and to apply the proceeds in satisfaction of the Clearing Member's obligations to the Corporation in respect of the relevant Exchange Transaction.
- (2) If a Clearing Member is late in making a payment at Settlement Time, the Corporation shall impose fines and may deem that Clearing Member a Non-Conforming Member, in accordance with Section 7 of the Operations Manual. In addition, the Board may take disciplinary measures set forth in Rule A-5 against the Non-Conforming Member.

## **Section B-110**

### **GENERAL RIGHTS AND OBLIGATIONS OF CLEARING MEMBERS**

- (1) Subject to the provisions of the Rules, a Clearing Member holding a Long Position in a call Option has the right, beginning at the time such Option is issued pursuant to this Rule B-1 and expiring at the Expiration Time of such Option, to purchase from the Corporation at the aggregate Exercise Price the number of Units of Trading of the Underlying Interest represented by such Option, all in accordance with the Rules and, if applicable, the regulations, rules and policies of the Exchange where the option was traded.
- (2) A Clearing Member holding a Short Position in a call Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to deliver the number of Units of Trading of the Underlying Interest represented by such Option against payment of the aggregate Exercise Price, all in accordance with the Rules and, if applicable, the regulations, rules and policies of the Exchange where the option was traded.
- (3) Subject to the provisions of these Rules, a Clearing Member holding a Long Position in a put Option has the right, beginning at the time such Option is issued pursuant to this Rule B-1 and expiring at the Expiration Time of such Option, to sell to the Corporation at the aggregate Exercise Price the number of Units of Trading of the Underlying Interest represented by such Option, all in accordance with the Rules and, if applicable, the regulations, rules and policies of the Exchange where the option was traded.
- (4) A Clearing Member holding a Short Position in a put Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay the aggregate Exercise Price against delivery of the number of Units of Trading of the Underlying Interest represented by such Option, all in accordance with the Rules and, if applicable, the regulations, rules and policies of the Exchange where the option was traded.

## **Section B-111**

### **TERMS OF OPTIONS**

- (1) The Expiration Date and Exercise Price of Options of each Series of Options shall be determined by the Exchange on which it is traded in agreement with the Corporation at the time such Series of Options is first opened for trading on an Exchange. No Series of Options shall be opened for trading without the consent of the Corporation.
- (2) The Unit of Trading of each Series of Options shall be designated by the Corporation and the exchange on which the Option is traded prior to the time such Series of Options is first opened for trading.
- (3) The Unit of Trading and Exercise Price initially established for a Series of Options are subject to adjustment in accordance with Section A-902.
- (4) The applicable provisions of these Rules including, without limitation, security interests in Options granted to the Corporation and the liquidation rights of the Corporation provided for therein, shall constitute part of the terms of each Option issued by the Corporation.



**Section B-112**  
**LONG POSITIONS**

- (1) The Long Position of a Clearing Member in a Series of Options in a particular account will be created upon the Corporation's acceptance of such Clearing Member's Opening Purchase Transaction in such account in respect of one or more Options of such Series of Options. The amount of such Long Position shall be the number of Options so issued and such Long Position shall remain in force from day to day thereafter unless and until changed in accordance with the following:
- (a) The Long Position shall be increased by the number of Options of such Series of Options which are the subject of Opening Purchase Transactions in such account and are thereafter accepted by the Corporation;
  - (b) The Long Position shall be reduced by the number of Options of such Series of Options for which the Clearing Member thereafter files an Exercise Notice with the Corporation in such account;
  - (c) The Long Position shall be reduced by the number of Options of such Series of Options which are the subject of Closing Writing Transactions in such account and which are thereafter accepted by the Corporation;
  - (d) The Long Position shall be eliminated at the Expiration Time for such Series of Options;
  - (e) The Long Position shall be increased by the number of Options of such Series of Options transferred to such account, with the consent of the Clearing Member and the Corporation, from another account of the Clearing Member or from another Clearing Member;
  - (f) The Long Position shall be reduced by the number of Options of such Series of Options transferred from such account, with the consent of the Clearing Member and the Corporation, to another account of the Clearing Member or to another Clearing Member;
  - (g) The number of Options in the Long Position may be adjusted from time to time in accordance with these Rules; and
  - (h) The Long Position may be closed out or transferred by the Corporation in accordance with these Rules including, without limitation, upon the occurrence of any default by the Clearing Member or upon the Clearing Member's suspension, expulsion, termination of membership, or insolvency.
- (2) Subject to these Rules any American Option held in a Long Position may be exercised at any time between the time it is accepted by the Corporation and its Expiration Time and any European Option held in a Long Position may be exercised only on its Expiration Date.

### **Section B-113**

#### **SHORT POSITIONS**

- (1) The Short Position of a Clearing Member in a Series of Options in a particular account will be created upon the Corporation's acceptance of such Clearing Member's Opening Writing Transaction in such account in respect of one or more Options of such Series of Options. The amount of such Short Position shall be the number of such Options involved in such transaction, and the Short Position shall remain in force from day to day thereafter unless and until changed in accordance with the following:
  - (a) The Short Position shall be increased by the number of Options of such Series of Options which are the subject of Opening Writing Transactions in such account and are thereafter accepted by the Corporation;
  - (b) The Short Position shall be reduced by the number of Options of such Series of Options which are the subject of Exercise Notices thereafter assigned to the Clearing Member in such account in accordance with these Rules for application against such Short Position;
  - (c) The Short Position shall be reduced by the number of Options of such Series of Options which are the subject of Closing Purchase Transactions in such account and which are thereafter accepted by the Corporation;
  - (d) The Short Position shall be eliminated at the Expiration Time for such Series of Options;
  - (e) The Short Position shall be increased by the number of Options of such Series of Options transferred to such account, with the consent of the Clearing Member and the Corporation, from another account of the Clearing Member or from another Clearing Member;
  - (f) The Short Position shall be reduced by the number of Options of such Series of Options transferred from such account, with the consent of the Clearing Member and the Corporation, to another account of the Clearing Member or to another Clearing Member;
  - (g) The number of Options in the Short Position may be adjusted from time to time in accordance with these Rules; and
  - (h) The Short Position may be closed out or transferred by the Corporation in accordance with these Rules including, without limitation, upon the occurrence of any default by the Clearing Member or upon the Clearing Member's suspension, expulsion, termination of membership, or insolvency.
- (2) The Corporation shall have the right to assign, in accordance with these Rules, its obligations in respect of any Option upon the exercise of such Option to any Clearing Member having a Short Position in the same Series of Options in any account.

### **Section B-114**

#### **AGREEMENTS OF WRITING CLEARING MEMBER IN AN OPENING WRITING TRANSACTION**

The Clearing Member responsible for an Opening Writing Transaction agrees with the Corporation that:

- (a) upon the Corporation's acceptance of such transaction, the Short Position of the Clearing Member in the account in which the transaction is effected shall be created or increased, and subsequently maintained, in accordance with Section B-113;
- (b) so long as such Short Position is thereafter maintained, the Clearing Member responsible shall make all required initial and maintenance margin payments in accordance with these Rules; and
- (c) in the event that an Exercise Notice is assigned to such Clearing Member, it shall perform, on behalf of the Corporation, the Option in accordance with its terms and with these Rules.

### **Section B-115**

#### **CLOSING WRITING TRANSACTIONS**

A Clearing Member responsible for a Closing Writing Transaction agrees that, upon the Corporation's acceptance of such transaction, the Corporation shall reduce or eliminate the Clearing Member's Long Position and, when Paragraph (2)(a) of Section B-108 is applicable, it shall create a Short Position in the account through which the transaction was effected by the number of Options involved.

### **Section B-116**

#### **CLOSING PURCHASE TRANSACTIONS**

A Clearing Member responsible for a Closing Purchase Transaction agrees that, upon the Corporation's acceptance of such transaction, the Corporation shall reduce or eliminate the Clearing Member's Short Position and, when Paragraph (2)(a) of Section B-108 is applicable, it shall create a Long Position in the account through which the transaction was effected by the number of Options involved.

### **Section B-117**

#### **SETTLEMENT WHEN DELIVERY OF UNDERLYING INTEREST IS RESTRICTED**

- (1) Notwithstanding anything contained in these Rules, the Board shall be empowered to impose such restrictions on the exercise of one or more Series of American Options as the Board in its judgment deems necessary or advisable in the interest of maintaining a fair and orderly market in Options or in the Underlying Interest or otherwise deems advisable in the public interest or for the protection of investors.
- (2) During the effectiveness of any such restriction, no Clearing Member shall effect an exercise for any account in contravention of such restriction. Notwithstanding the foregoing, no such restriction on exercise shall remain in effect with respect to any Series of Options on the Expiration Date for such Series of Options or, in the case of American Options, during the ten days prior to the Expiration Date of such Series of American Options. During such ten day period, or thereafter, the

Board may restrict the delivery upon exercise of the Underlying Interest not owned/held by the Clearing Member holding a Short Position in a call Option to whom an Exercise Notice is assigned, in which event the Corporation shall, at the beginning of Office Hours of each Business Day during which such restriction is in effect, fix a settlement value, if any, for such series of call Options; and any Clearing Member holding a Short Position in call Options of that series who is assigned an Exercise Notice shall, to the extent that the Clearing Member does not own/hold the Underlying Interest required to be delivered, be obligated to pay, and the Clearing Member holding a Long Position in a call Option whose Exercise Notice has been assigned shall give a receipt in full for, a cash amount equivalent to the settlement value so determined for the day the Exercise Notice is assigned. Further, during the ten day period or thereafter, the Board may restrict the delivery upon exercise of the Underlying Interest not owned/held by the Clearing Member holding a Long Position in a put Option who has exercised such put Option, in which event the Corporation shall, at the beginning of Office Hours of each Business Day during which such restriction is in effect, fix a settlement value, if any, for such series of put Options and any Clearing Member holding a Short Position in put Options of that series who exercises such Options shall, to the extent that he does not own the Underlying Interest required to be delivered, be obligated to accept, and the Clearing Member holding a Short Position in the put Option to whom an Exercise Notice is assigned shall pay a cash amount equal to the settlement value so determined for the day the Exercise Notice is assigned.

### **Section B-118**

#### **CERTIFICATELESS TRADING**

Certificates for Options will not be issued by the Corporation to evidence the issuance of Options.

## RULE B-2 TRADE REPORTING

### Section B-201 TRADE REPORTING OF OPTIONS TRANSACTIONS

- (1) Prior to the Settlement Time on each Business Day, the Corporation shall issue to each Clearing Member a Consolidated Activity Report for each account maintained by the Clearing Member with the Corporation. The Consolidated Activity Report shall list, among other things, all Exchange Transactions of the Clearing Member in such account effected on the previous Business Day.
- (2) On each Expiration Date the Corporation shall issue to each Clearing Member a report (“**Daily Transaction Report**”) which shall list all Exchange Transactions of the Clearing Member in such account effected on the last day of trading in Options which are expiring on such Expiration Date.
- (3) On every Business Day and Expiration Date the Corporation shall issue a transaction report to each Clearing Member of each Exchange.
- (4) Every Consolidated Activity Report shall show for each Exchange Transaction in Options listed thereon:
  - (a) the identity of the purchasing Clearing Member and the writing Clearing Member;
  - (b) the Class and Series of Option;
  - (c) the premium per Unit of Trading;
  - (d) the number of contracts;
  - (e) in the case of a transaction in a Client Account whether it is an opening or closing transaction; and
  - (f) such other information as may be required by the Corporation.
- (5) It shall be the responsibility of each Clearing Member to ensure that any report issued to it pursuant to Subsections (1) or (2) is correct. If an error is thought to exist it shall be the further responsibility of each Clearing Member, where possible, to reconcile such error with the Clearing Member on the opposite side of the Exchange Transaction and such Clearing Members shall jointly report the corrected information to the Corporation. If the difference cannot be reconciled, the trade must be jointly reported to the Corporation as a rejected trade by both Clearing Members participating in it.
- (6) Each Clearing Member shall have until 9:45 p.m. on the Expiration Date for expiring Series of Options (or such other time as may be specified) and until 1.5 hours prior to the Close of Business on the Business Day following the day on which the Exchange Transaction took place for non-expiring Series of Options to notify the Corporation, in the form prescribed, of any error. Unless such notification is received by the established deadline, and unless the correction of such error is rejected by the Corporation which is entitled to do so if it deems appropriate, the Exchange



Transactions accepted by the Corporation as contained in the report shall be final and binding upon the Clearing Members reported as parties to such transaction.

- (7) Each Clearing Member shall be responsible to the Corporation in respect of each Exchange Transaction reported to the Corporation by an Exchange in which such Clearing Member is identified as a purchasing Clearing Member, writing Clearing Member or the Associate Clearing House responsible for such Exchange Transaction whether or not such Exchange report was correct, unless the Corporation is notified of any errors in compliance with this Rule.

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

**Section B-301**  
**EXERCISE OF OPTIONS**

Unless otherwise determined by the Corporation, issued and unexpired Options may be exercised only in the following manner, during the Business Hours of each Business Day:

- (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 within the time frames provided by the Corporation in the Operations Manual. 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

- (a) 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.
- (f) 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.

- (g) 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.
- (h) 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.
- (i) 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
- (j) 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
- (k) 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.
- (l) 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.

- (m) 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 a class of shares, 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.

## **RULE B-4**

### **DELIVERY AND PAYMENT WITH RESPECT TO OPTIONS EXERCISED**

#### **Section B-401**

##### **DEFINITIONS**

Notwithstanding another meaning assigned to these terms in any other Rule, for the purposes of Rule B-4, the following terms shall have the following meanings respectively:

**“Security Funds”** means any additional deposit(s) by a Clearing Member required by the Corporation to be placed with the Corporation to ensure performance of a Clearing Member’s obligations.

**“Time of Delivery”** means the time specified in Section B-404 by which a Clearing Member must make delivery of, or accept delivery and make payment in respect of, an Underlying Interest without being considered to have failed in its obligations under these Rules.

**“Delivering Clearing Member”** means the assigned Clearing Member, in the case of an exercise of a call Option, or the exercising Clearing Member, in the case of an exercise of a put Option.

**“Receiving Clearing Member”** means the exercising Clearing Member, in the case of an exercise of a call Option, or the assigned Clearing Member, in the case of an exercise of a put Option.

#### **Section B-402**

##### **DELIVERY ADVICE**

- (1) The Corporation will issue a report (**“Options Exercised and Assigned Report”**) on the following Business Day to each Clearing Member who submitted an Exercise Notice and to each Clearing Member to whom an Exercise Notice has been assigned. Such report shall identify the Clearing Member, the account in respect of which the Exercise Notice was tendered or to which the Exercise Notice is assigned, the number of contracts, by series, exercised or assigned and the value.
- (2) The Corporation will issue a daily report (**“Unsettled Delivery Report”**) on the following Business Day to each Clearing Member who submitted an Exercise Notice and to each Clearing Member to whom an Exercised has been assigned. Such report shall identify all items which have not yet been delivered.

#### **Section B-403**

##### **DELIVERY AND PAYMENT**

Unless otherwise specified by the Corporation, delivery of the Underlying Interest and payment therefor shall be made as directed by the Corporation in accordance with the Rules then in effect.



## Section B-404 OBLIGATION TO DELIVER

The Delivering Clearing Member shall deliver the Underlying Interest specified in a report (“**Unsettled Delivery Report**”) in Good Deliverable Form against payment of the Exercise Settlement Amount on or before 1:45 p.m. on the date set forth in the Report as the Exercise Settlement Date, provided that in addition to applicable provisions of the Rules:

- (a) the Corporation may impose such penalties as it deems appropriate for the failure to make timely delivery of the Underlying Interest;
- (b) the Board may extend or postpone the time for delivery or payment whenever, in its opinion, such action is required in the public interest or to meet unusual conditions;
- (c) in the event the Delivering Clearing Member is obligated, pursuant to the provisions of Section B-116, to pay on the Exercise Settlement Date the settlement value in respect of the Underlying Interest, then in lieu of any other right or obligation hereunder or under the Option the Delivering Clearing Member shall be obligated to pay, and the Receiving Clearing Member to receive, the settlement value fixed in accordance with Section B-116;
- (d) the Corporation may designate a different Exercise Settlement Date for property that is deliverable as a result of an adjustment of the exercised Option pursuant to these Rules; and
- (e) if delivery of the Underlying Interest by the Delivering Clearing Member is not effected by the time provided in this Section B-404, the Receiving Clearing Member shall inform the Corporation of such failure no later than 2:00 p.m. on the Exercise Settlement Date, but failure to do so shall not prevent the application of any provision of the Rules to the Delivering Clearing Member. The Receiving Clearing Member shall notify the Corporation of the default by telephone, with written notification sent by facsimile transmission, to be provided as soon as possible.

## Section B-405 OBLIGATION OF RECEIVING CLEARING MEMBER

The Receiving Clearing Member shall receive the Underlying Interest specified in a report (“**Options Unsettled Delivery Report**”) and make payment of the Exercise Settlement Amount on or before 1:45 p.m. on the date set forth in the report as the Exercise Settlement Date, provided that:

- (a) the Corporation may impose such penalties as it deems appropriate for the failure to make timely payment for the Underlying Interest;
- (b) the Board may extend or postpone the time for delivery or payment whenever, in its opinion, such action is required in the public interest or to meet unusual conditions;
- (c) in the event the Delivering Clearing Member is obligated, pursuant to the provisions of Section B-117, to pay on the Exercise Settlement Date the settlement value in respect of the Underlying Interest, then in lieu of any other right or obligation hereunder or under the

Option the Delivering Clearing Member shall be obligated to pay, and the Receiving Clearing Member to receive, the settlement value fixed in accordance with Section B-117;

- (d) the Receiving Clearing Member shall comply with such acknowledgement procedures as may be established by the Corporation;
- (e) the Corporation may designate a different Exercise Settlement Date for property that is deliverable as a result of an adjustment of the exercised Option pursuant to these Rules; and
- (f) if payment for the Underlying Interest by the Receiving Clearing Member is not effected by the time provided in this Section B-405, the Delivering Clearing Member shall inform the Corporation of such failure no later than 2:00 p.m. on the Exercise Settlement Date, but failure to do so shall not prevent the application of any provision of the Rules to the Receiving Clearing Member. The Delivering Clearing Member shall notify the Corporation of the default by telephone, with written notification sent by facsimile transmission, to be provided as soon as possible.

#### Section B-406 DELIVERY PRIOR TO EXERCISE SETTLEMENT DATE

The acceptance of a delivery prior to the Exercise Settlement Date shall be at the option of the Receiving Clearing Member.

#### Section B-407 FAILURE TO DELIVER

If the Delivering Clearing Member required to make delivery under Section B-404 fails to complete such delivery by the Exercise Settlement Date (a “**Failed Delivery**”), the Delivering Clearing Member will become a Non-Conforming Member and may be subject to disciplinary action pursuant to Rule A-5. The Corporation may take or cause, authorize or require to be taken whatever steps it may deem necessary to effect delivery or otherwise settle with the Receiving Clearing Member. Without limiting the generality of the foregoing, the Corporation may acquire and deliver the Underlying Interest on the open market, enter into an agreement with the Receiving Clearing Member and the Delivering Clearing Member relating to the Failed Delivery, and/or take such other action as the Corporation may, in its sole discretion, deem appropriate or necessary in order to ensure that Clearing Members’ obligations are fulfilled and any such action shall constitute an obligation of the Delivering Clearing Member. In the event that the purchase of the undelivered Underlying Interest at the best available market for the account of the Receiving Clearing Member exceeds the Exercise Settlement Amount, the Delivering Non-Conforming Member shall be liable for and shall promptly pay to the Corporation or the Receiving Clearing Member as the case may be, the amount of such difference.

## **Section B-408**

### **FAILURE TO RECEIVE DELIVERY**

If the Receiving Clearing Member required to receive under Section B-405 fails to receive, or fails to pay the Exercise Settlement Amount for, all the Underlying Interest delivered to it in Good Deliverable Form in fulfillment of an exercised Option, and such failure shall continue beyond 1:45 p.m. on the Exercise Settlement Date, the Receiving Clearing Member will become a Non-Conforming Member and may be subject to disciplinary action pursuant to Rule A-5. The Corporation may take or cause, authorize or require to be taken whatever steps it may deem necessary to effect payment to, or otherwise settle with, the Delivering Clearing Member. Without limiting the generality of the foregoing, the Corporation or the Delivering Clearing Member may, upon notice to the Non-Conforming Receiving Clearing Member and, if such action is taken by the Delivering Clearing Member, to the Corporation, sell out in the best available market, for the account and liability of the Non-Conforming Receiving Clearing Member, all or any part of the undelivered Underlying Interest, and/or take such other action as the Corporation may, in its sole discretion, deem appropriate or necessary in order to ensure that the Clearing Members' obligations are fulfilled and any such action shall constitute an obligation of the Receiving Clearing Member. Notice of any deficiency arising from such sell-out shall be submitted immediately to the Corporation and the Non-Conforming Receiving Clearing Member. The Non-Conforming Receiving Clearing Member shall pay promptly, and in any event prior to 10:00 a.m. on the Business Day immediately following the day on which the sell-out is executed, to the Delivering Clearing Member the difference, if any, between the Exercise Settlement Amount and the price at which such Underlying Interest was sold out.

## **Section B-409**

### **PENALTIES AND RESTRICTIONS**

- (1) In addition to measures available to the Corporation against Non-Conforming Members under the Application for Membership the Board shall set by resolution, from time to time, the penalties payable in the event that a Clearing Member fails to make delivery or fails to accept delivery and make payment when required to do so in accordance with the Rules and By-laws; provided, however, that the penalty for any single such failure shall not exceed \$250,000. The amount of these penalties shall be in addition to any other sanctions that may be imposed by the Corporation pursuant to these Rules, notably under Rule A-4 or Rule A-5. If a Clearing Member fails to make delivery or accept delivery and make payment, as required under the Rules and By-laws, such penalty shall be assessed against it commencing as of the Time of Delivery and continuing until the Non-Conforming Member's obligations to the Corporation are fulfilled or the Non-Conforming Member is suspended pursuant to Rule A-4, whichever is the sooner.
- (2) Where at the Time of Delivery a Delivering Clearing Member fails to make delivery or a Receiving Clearing Member fails to accept delivery and make payment, the Non-Conforming Member's clearing activities shall immediately be restricted to Closing Purchase Transactions and Closing Sell Transactions, unless the Corporation determines that it is not necessary to impose such restriction, in whole or in part. This restriction shall continue until the Non-Conforming Member deposits Security Funds with the Corporation in accordance with Sections B-411 and B-412, or, if such funds are not deposited, until otherwise determined by the Chairperson of the Board and any two of its directors. Nothing in this Subsection B-409(2) shall prevent the Corporation from immediately suspending a Non-Conforming Member under Rule A-4.

### **Section B-410**

#### **NOTIFICATION OF FAILURE TO MAKE DELIVERY/MAKE PAYMENT**

The Corporation shall report a Non-Conforming Member, and all circumstances surrounding the transaction that the Corporation deems relevant or appropriate, to each of the Exchanges, any appropriate self-regulatory agency or regulatory agency, other Clearing Members, and to any other Entity considered appropriate or necessary by the Corporation. Such notice may include, but is not restricted to, the following information: the identities of the Delivering Clearing Member and the Receiving Clearing Member, the notional value of the transaction, the issue to be delivered, the settlement amount and any other information considered appropriate or relevant by the Corporation.

### **Section B-411**

#### **FORM OF SECURITY FUNDS**

Security Funds shall be in the same form as deposits accepted by the Corporation pursuant to Section A-608.

### **Section B-412**

#### **DEPOSIT OF SECURITY FUNDS**

- (1) Where a Receiving Clearing Member has failed to accept the delivery of an Underlying Interest and make payment therefor, it shall become a Non-Conforming Member and it must deliver to the Corporation, within one hour after the Time of Delivery, Security Funds equal to the settlement value, or, in the sole discretion of the Corporation, in an amount equal to the difference between the liquidating value of the Underlying Interest and the settlement value, or such other amount as the Corporation may determine. Upon such delivery, the calculation of penalties and implementation of restrictions, as provided for in Section B-409, shall end. The deposit of the Security Funds with the Corporation, after the required delivery time, does not discharge any obligation of such Clearing Member to the Corporation including the payment of any penalties or payment of costs incurred by the Corporation in connection with the Clearing Member's default, and does not preclude the suspension of such Clearing Member under Section A-1A05 or the assessment of additional sanctions under Rule A-4 and Rule A-5.
- (2) Subject to Subsection A-701(3), the Security Funds deposited by a Non-Conforming Member shall be used, together with other Margin Deposits of the Non-Conforming Member, by the Corporation to effect delivery of or make payment in respect of the Underlying Interest, or otherwise meet the Corporation's obligations in respect of the transaction, or for any of the other purposes set forth in Subsection A-701(2).

### **Section B-413**

#### **EFFECTING DELIVERY/PAYMENT**

- (1) Where a Delivering Clearing Member has failed to make a delivery or a Receiving Clearing Member has failed to accept a delivery and make payment therefor, the Corporation shall use any funds available to it for such purposes, in such manner as it shall, in its sole discretion, consider

appropriate, to effect delivery of or make payment in respect of the Underlying Interest, or otherwise settle such failed transaction. The Corporation will endeavour to effect delivery or make payment as soon as practicable, given the nature of the Underlying Interest and all of the circumstances of the particular transaction.

- (2) Where the Corporation has effected delivery of or made payment for the Underlying Interest, or otherwise settled the transaction, and the cost of so doing exceeds the Security Funds (if any) deposited under Section B-412, and the Non-Conforming Member's Margin or Clearing Fund deposits, the Non-Conforming Member shall be liable to and shall promptly pay the Corporation the amount of the excess, in addition to any penalties and other sanctions that may be assessed, and the Corporation's reasonable expenses, including legal fees.
- (3) Where the Corporation has effected delivery of or made payment for the Underlying Interest, or otherwise settled the transaction, and the cost of so doing is less than the Security Funds (if any) deposited under Section B-412, any excess, less all assessed penalties and reasonable expenses, including legal fees, incurred by the Corporation, will be promptly returned to the Clearing Member, once the Corporation is satisfied that all obligations of the Clearing Member have been met.

#### **Section B-414**

#### **OTHER POWERS OF THE CORPORATION**

Notwithstanding the foregoing, the Corporation shall have the power to require a Non-Conforming Member to deposit such other funds or Security as the Corporation may, in its sole discretion, determine is necessary or advisable given the nature and value of the Underlying Interest and all of the circumstances of the failed transaction. A Non-Conforming Member shall cooperate fully with the Corporation in respect of the failed transaction and shall promptly provide the Corporation with such information relating thereto and to the Non-Conforming Member, as the Corporation may request.

#### **Section B-415**

#### **SUSPENSION AND OTHER DISCIPLINARY ACTION**

Notwithstanding any penalties or restrictions imposed on the Non-Conforming Member pursuant to Section B-409, the Corporation may suspend the Non-Conforming Member pursuant to Section A-1A05 or impose sanctions provided in Rules A-4 and A-5.

#### **Section B-416**

#### **FORCE MAJEURE OR EMERGENCY**

If delivery, settlement or acceptance or any precondition or requirement is prevented by *force majeure* or an Emergency, the affected Clearing Member shall immediately notify the Exchange involved and the Corporation. The Exchange involved and the Corporation shall take such action as they deem necessary under the circumstances and their decision shall be binding upon all parties to the contract. Without limiting the generality of the foregoing, they may modify the Settlement Time and/or the settlement date; designate alternate or new delivery and settlement points or alternate or new procedures in the event of conditions



interfering with the normal operations of approved facilities or delivery and settlement process; and/or fix a Settlement Price.

## **RULE B-5 OPTIONS CONTRACT SPECIFICATIONS**

### **Section B-501 DESIGNATION OF OPTIONS**

Options shall be designated by reference to the Underlying Interest, the Expiration Date, the Exercise Price and the Type and Style of Options.

### **Section B-502 APPROVAL OF UNDERLYING INTEREST**

Subject to the provisions of Section B-6, the Underlying Interest of an Option issued by the Corporation and the Unit of Trading of that Underlying Interest shall be approved by the Board following the recommendation of one or more Exchanges.

### **Section B-503 WITHDRAWAL OF APPROVAL OF UNDERLYING INTEREST**

Whenever the Board determines that an Underlying Interest previously approved for any reason should no longer be approved, the Corporation shall instruct each Exchange not to open for trading any additional Series of Options of the Class of Options covering that Underlying Interest and to prohibit any Opening Purchase Transaction in Options of that Class of Options, except as such Exchange shall deem necessary.

### **Section B-504 TERMS OF OPTIONS**

- (1) The Expiration Date and Exercise Price of Options of each Series of Options shall be determined by the Exchange on which they are traded subject to the agreement by the Corporation. The Exercise Price of each Series of Options shall be fixed at a price which is reasonably close to the price at which the Underlying Interest is traded in the relevant markets at the time such Series of Options is first opened for trading. Additional Series of Options of the same Class of Options may be opened as the market price of the Underlying Interest moves substantially from the initial price or prices.
- (2) The Unit of Trading and the Exercise Price initially established for a Series of Options by the Exchange are subject to adjustment in accordance with these Rules. When adjustments have been made, notice thereof shall be promptly given by each Exchange on which it is traded to all Clearing Members and the adjusted Unit of Trading and the adjusted Exercise Price shall be posted on the trading floor on which the Series of Options is traded.



## **RULE B-6 SECURITIES OPTIONS**

This Rule B-6 is applicable to American Style Options and European Style Options where the Underlying Interest is a class of shares or a class of units. Such Options are referred to in this Rule B-6 as “**Securities Options**”.

### **Section B-601 DEFINITIONS**

Notwithstanding Section A-102, the following definitions shall apply to Rule B-6:

“**American Exchange**” – means a national securities exchange as defined in the Securities Exchange Act of 1934, as amended from time to time.

“**American ATS**” – means an alternative trading system, as defined by the U.S. Securities and Exchange Commission in its Rules, as amended from time to time.

“**ATS**” – means Canadian ATS and American ATS.

“**Canadian ATS**” – means an alternative trading system, as defined in Regulation 21-101 respecting Marketplace Operation, as amended from time to time.

“**Canadian Exchange**” – means a recognized exchange as defined in Regulation 21-101 respecting Marketplace Operation, as amended from time to time.

“**ETF**” – means an exchange-traded funds, the Securities of which are listed on a Canadian Exchange.

“**North American Volume**” – for the purposes of the eligibility and ineligibility of the Underlying Interests of Options, means the aggregate trading volume on all Canadian Exchanges and American Exchanges and all the ATS where the underlying Securities are traded.

“**Primary Exchange**” – as regards a specific Security on a given day, means the Canadian Exchange on which such Security is listed if it is listed on only one Canadian Exchange. Where such specific Security is listed on more than one Canadian Exchange, then it shall mean the Canadian Exchange which has the highest trading volume on such Security on a given day, as determined by the Corporation.

“**Securities Option**” – means an American Style Option or a European Style Option for which the Underlying Interest is a class of shares or a class of units.

“**Security**” – means a share or a unit.

“**Share**” – means an instrument of title issued by a corporation or an ETF which is an open-end investment company.

“**Underlying Interest**” – means Securities meeting the criteria described in this Rule.

“**Unit**” – means an instrument of title issued by a trust or by an ETF which is a trust.

**“Unit of Trading”** – means 100 shares of the Underlying Interest, unless otherwise indicated.

**“Value of Available Public Float”** – means the value of the available public float as calculated by the following formula: as regards a specific Security on a given day, the number of units of the Security outstanding and available for trading by the public, multiplied by the closing price of such Security on the Primary Exchange.

## **Section B-602**

### **APPROVAL OF UNDERLYING INTEREST**

- (1) The Securities underlying the Securities Options issued by the Corporation shall be approved by the Corporation based on criteria described in Section B-603 or B-605 of the Rules.
- (2) No more than one Class of Securities Options shall be approved for any one issuer, unless the Corporation considers it necessary or advisable, as a temporary measure, that there be additional Classes of Options.

## **Section B-603**

### **CRITERIA FOR ELIGIBILITY OF SECURITIES UNDERLYING OPTIONS**

- (1) To determine whether any Securities should be approved as the Underlying Interest of a Securities Option, the Corporation, in those circumstances where Section B-607 does not apply, shall ensure that prior to being approved as an Underlying Interest the Securities meet all of the following criteria:
  - (a) the Security is listed on a Canadian Exchange;
  - (b) the Value of Available Public Float is within the top thirty percentile (30%) of the aggregate Value of Available Public Float listed on all Canadian Exchanges as of the last Business Day of the previous quarter. The specific dollar threshold will be published by the Corporation;
  - (c) the daily average North American Volume of the Security for the last twenty (20) Business Days of the previous quarter is within the top thirty percentile (30%) of the North American Volume of the Securities listed on all Canadian Exchanges as of the last Business Day of the previous quarter. The specific threshold will be published by the Corporation.
- (2) The Corporation may approve as an Underlying Interest a Security which does not otherwise meet the eligibility criteria set forth in Subsection B-603(1), but which meets all of the following criteria:
  - (a) the Security is listed on a Canadian Exchange;
  - (b) 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

- (c) 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.

#### **Section B-604**

##### **INELIGIBILITY CRITERIA OF SECURITIES UNDERLYING OPTIONS**

- (1) Except as provided in Subsection B-604(2), no new Series of a Class of Securities Options which is already listed may be opened for trading if any one of the following conditions occurs with respect to the Underlying Interest:
  - (a) the Security is no longer listed on a Canadian Exchange;
  - (b) the Value of the Available Public Float of the Security is below the top forty percentile (40%) of the aggregate Value of Available Public Float listed on all Canadian Exchanges as of the last Business Day of the previous quarter. The specific dollar threshold will be published by the Corporation;
  - (c) the daily average North American Volume of the Security for the last twenty (20) Business Days of the previous quarter is below the top forty percentile (40%) of the North American Volume of the Securities listed on all Canadian Exchanges as of the last Business Day of the previous quarter. The specific threshold will be published by the Corporation.
- (2) In exceptional circumstances and in the interest of maintaining a fair and orderly market or for the protection of investors, the Corporation may agree to clear additional Series of Options with respect to any Underlying Interest which complies with the criteria described in Paragraphs B-604(1)(b) or (c), provided that the Security is listed on a Canadian Exchange.

#### **Section B-605**

##### **CRITERIA FOR THE ELIGIBILITY OF ETF SECURITIES AS UNDERLYING INTERESTS OF OPTIONS**

- (1) Where the eligibility criteria set forth in section B-603 are not met, to determine whether Securities issued by an ETF should be eligible as an Underlying Interest of Securities Option, the Corporation may approve the listing thereof as an Underlying Interest, where the ETF meets all the following criteria:
  - (a) the Securities issued are listed on a Canadian Exchange;
  - (b) the Value of Available Public Float is equal to or greater the CAN\$20 million;
  - (c) 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
  - (d) the documentation is deemed satisfactory by the Corporation.

- (2) The ETF Securities eligible as Underlying Interests of Options pursuant to Subsection (1) are not subject to the ineligibility criteria set forth in Section B-604.

### **Section B-606**

#### **CRITERIA FOR THE INELIGIBILITY OF ETF SECURITIES AS UNDERLYING INTERESTS OF OPTIONS**

No new series of a Class of ETF Securities listed on an Exchange under Section B-605 shall be eligible for trading if any one of the following events occurs in respect of the Underlying Interest:

- (a) the Security is no longer listed on a Canadian Exchange;
- (b) the Securities cease to be created or repurchased upon request every Business Day; or
- (c) the documentation is deemed unacceptable by the Corporation.

### **Section B-607**

#### **EVENT RELATING TO UNDERLYING INTERESTS OF SECURITIES OPTIONS**

- (1) Acquisition of a Listed Entity by a Newly-Established Entity

If a newly-established entity has acquired a listed entity, the trading record and history of the acquired entity may be used to test the options eligibility of the Securities of the new entity as provided for in Section B-603.

- (2) Name Changes

Corporate name changes have no effect on listed issues options eligibility. All statistics and history prior to the entity name change continue to apply to the Underlying Interest of such entity under the new corporate name.

- (3) Substitutional Listings

When a Security list change which is the result of a merger or acquisition involving the issuance or acquisition of listed Securities has occurred, the eligibility for Securities Options of all listed issues connected with the change shall be reviewed by the Corporation. No decision to change the option-eligibility status of a listed Underlying Interest will occur until after such merger or acquisition is completed. The general process which applies is as follows:

- (a)
  - (i) the Corporation shall ensure that each of the entities involved in such merger or acquisition is listed on a Canadian Exchange; or
  - (ii) on receipt of the notice of an event relating to the Underlying Interest or following the closing date of a Securities purchase offer, the Corporation shall ensure that the Securities of at least one of the entities involved are an Underlying Interest for

Options currently listed on a Canadian Exchange, and these Options are not at or past the date where no new series may be listed if they are classified as delistable by the Corporation, nor is the Underlying Interest for these Options classified as ineligible under Section B-604 or Section B-606.

- (b) The Corporation shall ensure that, prior to the merger or acquisition involving the issuance or acquisition of listed Securities, the sum of the Value of Available Public Float of the entities involved in the merger or acquisition meets the criteria set out in Paragraph B-603(1)(b) or Paragraph B-603(2)(b) or Paragraph B-605(1)(b) of the Rules.
  - (c) It is confirmed by the Corporation that the resultant company is listed on a Canadian Exchange.
  - (d) It is confirmed by the Corporation that the resultant company exceeds the criteria set out in Paragraph B-604(1)(b) of the Rules.
- (4) New Securities

If new Securities are created for the purpose of completing a merger or acquisition involving the issuance or acquisition of listed Securities, the relationship between the old and new Securities will determine whether the new Securities will be treated either as a substitutional, original or supplementary listing by the Corporation. Generally if the new issue is the only common issue of the entity, then the new issue will be treated as a substitutional issue. Otherwise the issue will be treated as an original or supplementary issue by the Corporation.

## Section B-608

### GOOD DELIVERABLE FORM OF STOCKS

A Security shall be deemed to be in good deliverable form for the purposes hereof only if the delivery of such Security would constitute good delivery under the regulations, rules and policies of all of the Exchanges.

## Section B-609

### DELIVERY OF SECURITIES AFTER “EX-DIVIDEND” DATE

- (1) When an Exercise Notice is properly tendered to the Corporation prior to the “**ex-dividend**” date (as fixed by an Exchange on which the Underlying Interest is listed) for a distribution that causes an adjustment to be made pursuant to the Rules, the delivering Member shall make delivery as required by such adjustment unless the delivering Member, the receiving Member and the Corporation otherwise agree.
- (2) When an Exercise Notice is properly tendered to the Corporation prior to the “ex-dividend” date for a distribution that does not cause an adjustment to be made pursuant to the Rules, and delivery of the Underlying Interest is made too late to enable the receiving Member to transfer the Underlying Interest into its name and to receive such distribution, the delivering Member shall, at the time of delivery, issue a payment to the receiving Member equal to the amount of the distribution, payable on the payment date of such distribution.

- (3) When an Underlying Interest is listed on more than one Exchange and differing “ex-dividend” dates are fixed by the Exchanges, the earliest date will be considered the “ex-dividend” date for purposes of this Section.

## **RULE B-7 BOND OPTIONS**

This Rule B-7 is applicable only to American Style Options where the Underlying Interest is a class of debt securities issued by the Government of Canada (a “**Bond**”). Such Options are referred to in this Rule B-7 as “**Bond Options**”.

### **Section B-701 DEFINITIONS**

Notwithstanding Section A-102 for the purpose of Bond Options the following terms shall have the meanings specified:

“**Underlying Interest**” - Government of Canada Bonds with an outstanding face value at maturity of at least \$500 million.

“**Unit of Trading**” - CDN \$25,000 face value at maturity.

### **Section B-702 EXERCISE PRICES**

(Deleted)

### **Section B-703 BONDS ACCEPTABLE FOR DELIVERY**

The Bonds acceptable for delivery upon the exercise of a Bond Option must be of the approved Underlying Interest for that Series of Bond Options and such Bonds shall bear all interest coupons applicable for the period from the last date on which interest was paid on such Bonds to and including the date of maturity of such Bonds. If the Government of Canada issues a new series of Bonds which are indistinguishable from an Underlying Interest insofar as maturity date, rate of interest and dates for the payment of interest are concerned, such new series of Bonds shall be deemed to be the Underlying Interest and shall become acceptable for delivery as of and from the day following the first date on which interest is paid on such new series of Bonds.



## **RULE B-8 SILVER OPTIONS**

This Rule B-8 is applicable only to American Style Options where the Underlying Interest is silver bullion. Such Options are referred to in this Rule B-8 as “**Silver Options**”.

### **Section B-801 DEFINITIONS**

Notwithstanding Section A-102 for the purpose of Silver Options the following terms shall have the meanings specified:

“**Underlying Interest**” - silver bullion having a fineness of 999 parts pure silver to 1,000 parts precious metal.

“**Unit of Trading**” - 100 troy ounces.

### **Section B-802 EXERCISE PRICES**

(Deleted 6/92)

### **Section B-803 DELIVERY**

Notwithstanding the provisions of Section B-404, upon the exercise of a Silver Option the obligation of the assigned Clearing Member shall be satisfied by the delivery of a certificate representing the Underlying Interest meeting the criteria established from time to time by the Corporation.

### **Section B-804 CURRENCY**

All trading and settlement of Silver Options takes place in United States funds. All margin requirements will be calculated in United States funds and converted to Canadian funds at a rate of exchange determined from time to time by the Corporation. All clearing fees and margin in relation to Silver Options will be payable in Canadian Funds.

**RULE B-9**  
**INDEX PARTICIPATION UNIT OPTIONS**

(Deleted)

## **RULE B-10**

### **EUROPEAN STYLE STOCK INDEX OPTIONS**

This Rule B-10 is applicable only to European Style Options where the Underlying Interest is A GROUP OF Eligible Stock Indices. Such Options are referred to in this Rule B-10 as “**Stock Index Options.**”

#### **Section B-1001**

##### **DEFINITIONS**

Notwithstanding Section A-102 of the Rules, for the purposes of European Style Stock Index Options, the following terms shall have the meanings specified:

“**Aggregate Current Value**” - means the official opening level of an Index on the Expiration Date of the Option, multiplied by the Eligible Stock Index Option Unit of Trading, as specified by the Exchange.

“**Aggregate Exercise Price**” – means the Exercise Price of an Option, multiplied by the Eligible Stock Index Option Unit of Trading, as specified by the Exchange.

“**Call**” – means an exchange-traded European Style Option which gives the holding Clearing Member the right to receive the Call Exercise Settlement Amount from the Corporation on the Expiration Date.

“**Call Exercise Settlement Amount**” – means the cash difference when the Aggregate Exercise Price is deducted from the Aggregate Current Value.

“**Eligible Stock Index**” – means a Securities index that is either the S&P/TSX 60 Index, the S&P/TSX Composite Index – Banks (Industry Group) or the S&P/TSX Capped Utilities Index.

“**Exchange**” – means the third Friday of the month.

“**Exercise Settlement Date**” – means the Business Day following the Expiration Date.

“**Put**” – means an exchange-traded European Style Option which gives the holding Clearing Member the right to receive the Put Exercise Settlement Amount from the Corporation on the Expiration Date.

“**Put Exercise Settlement Amount**” – means the cash difference when the Aggregate Current Value is deducted from the Aggregate Exercise Price.

“**Underlying Interest**” – means the Eligible Stock Index underlying the Option.

“**Underlying Security**” – means any of the Securities included in an Eligible Stock Index underlying a class of Eligible Stock Index Options.

#### **Section B-1002**

##### **EXERCISE PRICES**

(Deleted)

### **Section B-1003**

#### **TRADE REPORTING OF OPTIONS TRANSACTIONS**

Notwithstanding Subsection B-201(6) each Clearing Member shall have until 1.5 hours prior to the Close of Business on the Business Day following the day on which the trade took place to notify the Corporation, in the form prescribed, of any error. Unless such notification is received by the established cut-off hour, the exchange transactions accepted by the Corporation and as contained in the report shall be final and binding upon the Clearing Members reported as parties to such transaction.

### **Section B-1004**

#### **EXPIRATION DATE EXERCISE PROCEDURE**

- (1) European Style Eligible Stock Index Options will be listed with American Style Options on the Expiry Report issued on the Expiration Date and all in-the-money Long Positions shall be automatically exercised in accordance with Section B-307.
- (2) The term “**closing price**” as used in Section B-307 in reference to the Underlying Interest of any European Style Eligible Stock Index Option shall mean the official opening level of the Index on the Expiration Date as reported to the Corporation by the relevant Exchange. If no level was reported for such Index, the Corporation may determine not to fix a “closing price” for this Option. In the event of such a determination, Expiry Reports shall not include a daily “closing price” for such European Style Stock Index Option and Clearing Members may exercise this Option only by giving affirmative exercise instructions in accordance with Subsections B-307(b) or (e).

### **Section B-1005**

#### **GENERAL RIGHTS AND OBLIGATIONS OF CLEARING MEMBERS**

Notwithstanding Section B-110, for the purposes of Eligible Stock Index Options:

- (a) A Clearing Member holding a Long Position in a Call Option has the right, on (and only on) the Expiration Date, to receive the Call Exercise Settlement Amount from the Corporation, on tender of an Exercise Notice;
- (b) A Clearing Member holding a Short Position in a Call Option is obligated, upon receipt of an Exercise Notice in respect of such Option, to pay the Call Exercise Settlement Amount to Corporation the Call Exercise Settlement Amount;
- (c) A Clearing Member holding a Long Position in a Put Option has the right, on (and only on) the Expiration Date, to receive the Put Exercise Settlement Amount from the Corporation, on tender of an Exercise Notice; and

A Clearing Member holding a Short Position in a Put Option is obligated, upon receipt of an Exercise Notice in respect of such Option, to pay the Put Exercise Settlement Amount to the Corporation.

## **Section B-1006**

### **ADJUSTMENTS**

No adjustments will ordinarily be made in the terms of Eligible Stock Index Options in the event that Underlying Securities are added to or deleted from an Eligible Stock Index or when the relative mean weight of one or more Underlying Securities in an Eligible Stock Index is changed. However, if the Corporation determines, in its sole discretion, that any such addition, deletion or change causes significant discontinuity in the level of the Eligible Stock Index, the Corporation may adjust the terms of the affected Eligible Stock Index Options by taking such action as the Corporation in its sole discretion deems fair to Clearing Members holding Long or Short Positions in these contracts. Determinations with respect to adjustments pursuant to this Section shall be made by the Adjustment Committee provided for in Subsection A-902(2).

## **Section B-1007**

### **OFFICIAL OPENING LEVEL**

- (1) If the Corporation determines that the official opening level of the Underlying Interest of any series of Eligible Stock Index Options (the “**affected series**”) is unreported or otherwise unavailable for purposes of calculating the Call and Put Exercise Settlement Amounts for exercised Options of the affected series, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
  - (a) Suspend the exercise settlement obligations of assigned Clearing Members with respect to Eligible Stock Index Options of the affected series. At such time as the Corporation determines that the official opening level of the Eligible Stock Index can be achieved or the Corporation has fixed the Call and Put Exercise Settlement Amounts pursuant to Paragraph (b) of this Subsection, the Corporation shall fix a new date for settlement of the exercised Option;
  - (b) Fix the Call and Put Exercise Settlement Amounts for exercised contracts of an affected series in accordance with the best information available as to the official opening level of the Index.
- (2) The official opening level of a given Index, as reported by the Exchange specifying such Index, shall be conclusively deemed to be accurate, except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported official opening level of the Eligible Index, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended official opening level to be used for settlement purposes.

## **Section B-1008**

### **DELIVERY AND PAYMENT WITH RESPECT TO OPTIONS EXERCISED**

Notwithstanding the provisions of Sections B-403 to B-408 inclusively, for the purposes of Index Options, exercised and assigned Eligible Stock Index Options shall be settled in cash at Settlement Time on the Exercise Settlement Date.

**Section B-1009**  
**SUSPENSION OF A CLEARING MEMBER - EXERCISED OPTIONS**

- (1) Notwithstanding Section A-408, unless the Corporation stipulates otherwise in a particular case, exercised Eligible Stock Index Options to which a suspended Clearing Member is a party shall be closed through the procedures set forth in Sections B-407 and B-408, respectively, except that the Corporation may decide not to buy-in or sell-out. All losses and gains on such buy-ins and sell-outs shall be paid from or credited to, as the case may be, the Liquidating Settlement Account of the suspended Clearing Member; provided, however, that all losses on such buy-ins and sell-outs in a Market Maker Account shall first be paid from such account to the extent there are funds available in such account and only the amount of any deficit therein shall be paid from the Liquidating Settlement Account.
- (2) The Corporation shall effect settlement pursuant to Section B-1009 with all Clearing Members that have been assigned an exercise notice filed by a suspended Clearing Member or that have filed exercise notices that were assigned to a suspended Clearing Member without regard to such suspension.



## **RULE B-11**

### **OPTIONS ON GOVERNMENT OF CANADA BOND FUTURES**

This Rule B-11 is applicable only to American Style Options where the Underlying Interest is Government of Canada Bond Futures traded on The Montreal Exchange. Such Options are referred to in the Rule B-11 as **“Bond Futures Options”**.

#### **Section B-1101**

##### **DEFINITIONS**

Notwithstanding Section A-102 for the purpose of Bond Futures Options, the following terms shall have the meaning specified:

**“Exercise Price”** - The specified price per Unit of Trading at which a position in the Underlying Interest may be assumed upon the exercise of an Option.

**“Expiration Date”** - The Last Day of Trading.

**“Expiration Month”** - The calendar month immediately preceding the Option contract month included in the name of the Series of Options.

**“Last Day of Trading”** - The third Friday of the Expiration Month provided that such Friday is a Business Day and precedes by at least two Business Days the first day on which a Tender Notice may be submitted for the Underlying Interest. Otherwise the Last Day of Trading shall be the Business Day prior to such Friday which precedes by two Business Days the first day on which a Tender Notice may be submitted for the Underlying Interest.

**“Option”** - A contract which gives the purchasing Clearing Member the right to assume a Long Position (a call) or assume a Short Position (a put) in the Underlying Interest at a specified Exercise Price during a specified time period and which obligates the writing Clearing Member, upon assignment, to assume a Short Position (a call) or assume a Long Position (a put) in the Underlying Interest.

**“Underlying Interest”** - One (1) \$100,000 face value Government of Canada Bond Futures contract of the specified Futures contract month.

**“Unit of Trading”** – One (1) contract representing the Underlying Interest.



## Section B-1102

### EXPIRATION DATE EXERCISE PROCEDURE

- (1) Section B-307 will apply to Futures Options but the times which relate to each activity are changed to read as follows:
  - B-307 (a) At or before 8 a.m. and until the Close of Business;
  - B-307 (b) (ii) the Close of Business;
  - B-307 (f) between the hours stipulated by the Corporation on each Expiration Date.
- (2) The “**Closing Price**” for Futures Options referred to in Section B-307 shall mean the price of the Underlying Interest at or about the close of trading on the Expiration Date.

## Section B-1103

### GENERAL RIGHTS AND OBLIGATIONS OF CLEARING MEMBERS

- (1) Subject to the provisions of the Rules, a Clearing Member holding a Long Position in a call Option has the right, beginning at the time such Option is issued pursuant to Rule B-1 and expiring at the Expiration Time of such Option, to assume, on tender of an Exercise Notice, a Long Position in the Underlying Interest at the Exercise Price of the Option, all in accordance with the regulations, rules and policies of The Montreal Exchange and these Rules.
- (2) A Clearing Member holding a Short Position in a call Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to assume a Short Position in the Underlying Interest at the Exercise Price of the Option, all in accordance with the regulations, rules and policies of The Montreal Exchange and these Rules.
- (3) Subject to the provisions of these Rules, a Clearing Member holding a Long Position in a put Option has the right, beginning at the time such Option is issued pursuant to Rule B-1 and expiring at the Expiration Time of such Option, to assume, on tender of an Exercise Notice, a Short Position in the Underlying Interest at the Exercise Price of the Option all in accordance with the regulations, rules and policies of The Montreal Exchange and these Rules.
- (4) A Clearing Member holding a Short Position in a put Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to assume a Long Position in the Underlying Interest at the Exercise Price of the Option all in accordance with the regulations, rules and policies of The Montreal Exchange and these Rules.

Section B-110 does not apply to Futures Options.

## Section B-1104

### CLEARING FUND DEPOSITS

Clearing Members admitted to clear Futures Options shall maintain deposits in both the Options Clearing Fund and the Futures Clearing Fund of the amounts from time to time required by the Rules.

**Section B-1105**  
**EXERCISE SETTLEMENT DATE**

For the purposes of this Rule B-11 and notwithstanding anything else contained in these Rules, the Exercise Settlement Date shall be the Expiration Date.

**Section B-1106**  
**TRADE REPORTING**

- (1) Section B-201 will apply to Futures Options. However in addition to a Consolidated Activity Report available on the day after trade, each trade will also be detailed on a Futures Daily Transaction Report available after the close of trading on the trade date.
- (2) Notwithstanding Section B-201 (6) each Clearing Member shall have until one hour and fifteen minutes after the Close of Business on the Expiration Date for an expiring Series of Futures Options to notify the Corporation, in the form prescribed, of any error.

**Section B-1107**  
**RANDOM EXERCISE OF EXERCISE NOTICES**

Section B-305 shall apply to Futures Options but Subsection B-305(3) for Futures Options shall read as follows:

If an Exercise Notice is tendered in accordance with either Paragraph (a) or (b) of Subsection B-301(1) the assignment of such Exercise Notice shall be effective as of the day on which the Exercise Notice was tendered.

**Section B-1108**  
**REPORTING OF EXERCISES AND ASSIGNMENTS**

Section B-306 shall apply to Futures Options except that no Options Unsettled Delivery Report shall be issued as all exercised Futures Options result in a Futures position.

**Section B-1109**  
**DELIVERY WITH RESPECT TO OPTIONS EXERCISED**

Rule B-4 Delivery and Payment with Respect to Options Exercised shall not apply to Futures Options.

## **RULE B-12 GOLD OPTIONS**

The Sections of this Rule B-12 are applicable only to European Style Options where the Underlying Interest is gold bullion. Such Options are referred to in this Rule B-12 as “**Gold Options**”.

### **Section B-1201 DEFINITIONS**

Notwithstanding Section A-102, for the purposes of Gold Options, the following terms are as defined:

“**Call Exercise Settlement Amount**” – an amount equal to 10 times the difference when the Exercise Price is deducted from the Current Value.

“**Current Value**” – the London, England, PM spot price Gold fixing for one ounce of the Underlying Interest on the last day of trading.

“**Exercise Price**” – the price per ounce of the Underlying Interest specified in the Option.

“**Exercise Settlement Date**” – the Business Day following the Expiration Date.

“**Put Exercise Settlement Amount**” – an amount equal to 10 times the difference when the Current Value is deducted from the Exercise Price.

“**Time of Delivery**” – means the time specified in Section B-404 by which a Clearing Member must make delivery of, or accept delivery and make payment in respect of, an Underlying Interest without being considered to have failed in its obligations under these Rules.

“**Underlying Interest**” – fine gold bullion of minimum .995 fineness acceptable for good London, England, delivery.

“**Unit of Trading**” – 10 troy ounces.

### **Section B-1202 EXERCISE PRICES**

(Deleted)

### **Section B-1203 TRADE REPORTING OF OPTIONS TRANSACTIONS**

Notwithstanding the provisions of Section B-201 (6), each Clearing Member shall have until 1.5 hours prior to the Close of Business on the Business Day following the day on which the trade took place to notify the Corporation, in the form prescribed, of any error. Unless such notification is received by the established cut-off hour, the exchange transactions accepted by the Corporation and as contained in the report shall be final and binding upon the Clearing Members reported as parties to such transaction.

## **Section B-1204**

### **EXERCISED CONTRACTS**

As the settlement of exercises is in cash, which is included with the daily settlement, Sections A-407, B-407 and B-408 will not apply to European Style Gold Options.

## **Section B-1205**

### **EXPIRATION DATE EXERCISE PROCEDURE**

European Style Gold Options will be listed with American Style Options on the Expiry Report issued on each Expiration Date and all in-the-money Long Positions will be automatically exercised in accordance with Section B-307.

## **Section B-1206**

### **GENERAL RIGHTS AND OBLIGATIONS OF CLEARING MEMBERS**

Notwithstanding Section B-110, for the purposes of Gold Options:

- (a) A Clearing Member holding a Long Position in a call Option has the right, on (and only on) the Expiration Date, to receive from the Corporation, on tender of an Exercise Notice, the Call Exercise Settlement Amount;
- (b) A Clearing Member holding a Short Position in a call Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay to the Corporation the Call Exercise Settlement Amount;
- (c) A Clearing Member holding a Long Position in a put Option has the right, on (and only on) the Expiration Date, to receive from the Corporation, on tender of an Exercise Notice, the Put Exercise Settlement Amount; and
- (d) A Clearing Member holding a Short Position in a put Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay to the Corporation the Put Exercise Settlement Amount.

## **Section B-1207**

### **UNAVAILABILITY OR INACCURACY OF CURRENT VALUE**

- (1) If the Corporation shall determine that the Current Value is unreported or otherwise unavailable for purposes of calculating the Call and Put Exercise Settlement Amounts for exercised Gold Options, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
  - (a) suspend the settlement obligations of exercising and assigned Clearing Members with respect to Gold Options. At such time as the Corporation determines that the required Current Value is available or the Corporation has fixed the Call and Put Exercise

Settlement Amounts pursuant to Paragraph (b) of this Subsection, the Corporation shall fix a new date for settlement of the exercised Options.

- (b) fix the Call and Put Exercise Settlement Amounts for exercised Gold Options in accordance with the best information available as to the correct Current Value.
- (2) The Current Value as reported by the Exchange on which the Gold Option trade shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Current Value, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Current Value to be used for settlement purposes.

### **Section B-1208**

#### **DELIVERY AND PAYMENT WITH RESPECT TO OPTIONS EXERCISED**

Notwithstanding the provisions of Section B-403 to B-408, inclusive, for the purposes of Gold Options:

- (a) exercised and assigned Gold Options shall be settled at Settlement Time on the Exercise Settlement Date; and
- (b) no margin shall be required and no margin credit shall be given in respect of such contracts on such date.

### **Section B-1209**

#### **CURRENCY**

All trading and settlement of exercises of Gold Options takes place in United States funds. All margin requirements will be calculated in United States funds and converted to Canadian Funds. All clearing fees and margin in relation to Gold Options will be payable in Canadian Funds.

## RULE B-13

### OPTIONS ON CANADIAN BANKERS' ACCEPTANCE FUTURES

This Rule B-13 is applicable only to American Style Options where the Underlying Interest is Canadian Bankers' Acceptance Futures traded on The Montreal Exchange. Such Options are referred to in this Rule B-13 as **"Canadian Bankers' Acceptance Futures Options"**.

#### Section B-1301

##### DEFINITIONS

Notwithstanding Section A-102, for the purposes of Canadian Bankers' Acceptance Futures Options, the following terms are as defined:

**"Exercise Price"** – the specified price per Unit of Trading at which a position in the Underlying Interest may be assumed upon the exercise of an Option.

**"Expiration Date"** – the Last Day of Trading.

**"Last Day of Trading"** – options trading shall terminate at the same date and time as the underlying futures contract, i.e. at 10:00 a.m. on the second London (U.K.) business day preceding the third Wednesday of the contract month. However, options with an expiry that does not coincide with the expiry of the underlying futures contract shall cease trading at the date and time referred to in the options contract.

**"Option"** – a contract which gives the purchasing Clearing Member the right to assume a Long Position (in the case of a call) or assume a Short Position (in the case of a put) in the Underlying Interest at a specified Exercise Price during a specified time period and which obligates the Clearing Member holding a Short Position in the Option, upon assignment, to assume a Short Position (in the case of a call) or assume a Long Position (in the case of a put) in the Underlying Interest.

**"Underlying Interest"** – One (1) Canadian Bankers' Acceptance Futures contract of the specified Futures contract month.

**"Unit of Trading"** – One (1) contract representing the Underlying Interest.

#### Section B-1302

##### EXPIRATION DATE EXERCISE PROCEDURE

(1) Section B-307 will apply to Canadian Bankers' Acceptance Futures Options but the times which relate to each activity are changed to read as follows:

B-307 (a) At or before 8:a.m. and until the Close of Business;

B-307 (b)(ii) the Close of Business; and

B-307 (f) between the hours stipulated by the Corporation on each Expiration Date.

- (2) The “**closing price**” for Canadian Bankers’ Acceptance Futures Options referred to in Section B-307 shall mean the final settlement price of the Underlying Interest at or about the close of trading on the Expiration Date.

### **Section B-1303**

#### **GENERAL RIGHTS AND OBLIGATIONS OF CLEARING MEMBERS**

- (1) Subject to the provisions of these Rules, a Clearing Member holding a Long Position in a call Option has the right, beginning at the time such Option is issued pursuant to Rule B-1 and expiring at the Expiration Time of such Option, to assume, on tender of an Exercise Notice, a Long Position in the Underlying Interest at the Exercise Price of the Option, all in accordance with the regulations, rules and policies of The Montreal Exchange and these Rules.
- (2) A Clearing Member holding a Short Position in a call Option is obligated, upon the assignment to him of an Exercise Notice in respect of such Option, to assume a Short Position in the Underlying Interest at the Exercise Price of the Option, all in accordance with the regulations, rules and policies of The Montreal Exchange and these Rules.
- (3) Subject to the provisions of these Rules, a Clearing Member holding a Long Position in a put Option has the right, beginning at the time such Option is issued pursuant to Rule B-1 and expiring at the Expiration Time of such Option, to assume, on tender of an Exercise Notice, a Short Position in the Underlying Interest at the Exercise Price of the Option all in accordance with the regulations, rules and policies of The Montreal Exchange and these Rules.
- (4) A Clearing Member holding a Short Position in a put Option is obliged, upon the assignment to him of an Exercise Notice in respect of such Option, to assume a Long Position in the Underlying Interest at the Exercise Price of the Option all in accordance with the regulations, rules and policies of The Montreal Exchange and these Rules.

Section B-110 does not apply to Canadian Bankers’ Acceptance Futures Options.

### **Section B-1304**

#### **CLEARING FUND DEPOSITS**

Clearing Members admitted to clear Canadian Bankers’ Acceptance Futures Options shall maintain deposits in both the Options Clearing Fund and the Futures Clearing Fund of the amounts from time to time required by the Rules.

### **Section B-1305**

#### **TRADE REPORTING**

- (1) Section B-201 will apply to Canadian Bankers’ Acceptance Futures Options. However in addition to a Consolidated Activity Report available on the day after trade, each trade will also be detailed on a Futures Daily Transaction Report available after the close of trading on the trade date.



- (2) Notwithstanding Section B-201 (6) each Clearing Member shall have until the Close of Business on the Expiration Date for an expiring Series of Canadian Bankers' Acceptance Futures Options to notify the Corporation, in the form prescribed, of any error.

### **Section B-1306**

#### **RANDOM ASSIGNMENT OF EXERCISE NOTICES**

Section B-305 shall apply to Canadian Bankers' Acceptance Futures Options but Subsection (3) for Canadian Bankers' Acceptance Futures Options shall read as follows:

If an Exercise Notice is tendered in accordance with either Paragraph (a) or (b) of Subsection B-301(1) the assignment of such Exercise Notice shall be effective as of the day on which the Exercise Notice was tendered.

### **Section B-1307**

#### **REPORTING OF EXERCISES AND ASSIGNMENTS**

Section B-306 shall apply to Canadian Bankers' Acceptance Futures Options except that no Options Unsettled Delivery Report shall be issued as all exercised Canadian Bankers' Acceptance Futures Options result in a Futures position.

## **RULE B-14**

### **INSTALMENT RECEIPT OPTIONS**

This Rule B-14 is applicable only to American Style Options where the Underlying Interest is Instalment Receipts evidencing shares of a corporation (an “**Instalment Receipt**”). Such Options are referred to in this Rule B-14 as “**Instalment Receipt Options**”.

#### **Section B-1401**

##### **DEFINITIONS**

Notwithstanding Section A-102 for the purposes of Instalment Receipt Options the following terms shall have the meanings specified:

“**Instalment Receipt**” – An instalment receipt evidencing beneficial ownership of, and the obligation to pay the balance of the purchase price on, a share of a corporation.

“**Underlying Interest**” – Instalment Receipts meeting the criteria described in this Rule.

“**Unit of Trading**” – 100 units of the Underlying Interest, unless otherwise designated.

#### **Section B-1402**

##### **APPROVAL OF UNDERLYING INSTALMENT RECEIPTS**

- (1) The Instalment Receipts underlying the Instalment Receipt Options shall be approved by the Board following the recommendation of one or more Exchanges. In approving underlying Instalment Receipts, the Board shall give due regard to the following factors:
  - (a) the underlying Instalment Receipts shall be characterized by a large number of outstanding units which are widely held and actively traded;
  - (b) underlying Instalment Receipts shall be duly listed and posted for trading on an Exchange;
  - (c) underlying Instalment Receipts shall meet the requirements set forth in the agreements among the Exchanges and the Corporation.
- (2) No more than one Class of Options shall be approved for each class of Instalment Receipts unless the Board considers it necessary or advisable, as a temporary measure, that there be one or more additional Classes of Options for such class of Instalment Receipts.

### **Section B-1403**

#### **CRITERIA FOR ELIGIBILITY OF INSTALMENT RECEIPT OPTIONS**

- (1) In considering whether any Instalment Receipt should be approved as the Underlying Interest of an Instalment Receipt Option, the Board shall ensure that prior to being approved as an Underlying Interest the Instalment Receipt meets all of the following criteria:
  - (a) No less than 10,000,000 Instalment Receipts in the public float are held by persons who are not “insiders” under the securities laws of any of the provinces of Canada.
  - (b) The final prospectus for the Instalment Receipt details that payment for the shares evidenced by the Instalment Receipts is to be made in no more than two (2) instalments.
  - (c) The Market Price of the Instalment Receipt is at least \$5.00 per Instalment Receipt.
  - (d) The issuer whose securities are evidenced by the Instalment Receipts should have common shares and, if applicable, non-voting equity shares, subordinate or restricted voting equity shares and preferred shares outstanding that have an aggregate value of \$500,000,000 or more.
- (2) The criteria set forth in Subsection B-1403(1) may be amended from time to time by agreement between the Corporation and the relevant Exchanges.

### **Section B-1404**

#### **DEFICIENCY CRITERIA FOR INSTALMENT RECEIPT OPTIONS**

- (1) No new Series of a Class of Instalment Receipt Options which is already listed may be opened for trading if any one of the following conditions occur with respect to the Underlying Interest:
  - (a) less than 10,000,000 shares of the class or series evidenced by the Underlying Interest are held by persons who are not “insiders” under the securities laws of any of the provinces of Canada;
  - (b) the Underlying Interest is no longer listed on an Exchange;
  - (c) the issuer of the shares evidenced by the Underlying Interest or one of its significant subsidiaries has defaulted in the payment of any dividend or sinking fund instalment on preferred or common shares, or in the payment of any principal, interest or sinking fund instalment on any indebtedness for borrowed money, or in the payment of rentals under long-term leases, and such default has not been cured within six (6) months of the date on which it occurred;
  - (d) the issuer of the shares evidenced by the Underlying Interest has failed to make timely reports as required by the by-laws or rules of the Canadian exchanges upon which the Underlying Interest is listed; or
  - (e) the issuer whose shares are evidenced by the Underlying Interest has a market capitalization including all common and, if applicable, non-voting, subordinate or

restricted voting equity shares and preferred shares, which has been less than \$500,000,000 on a majority of Business Days in the preceding nine-month period.

- (2) In exceptional circumstances (by agreement between the Corporation and the relevant Exchanges) and in the interest of maintaining a fair and orderly market or for the protection of investors, an Exchange may open additional Series of Options with respect to any Underlying Interest which is deficient under one or more of the criteria set forth in Subsection B-1404(1).
- (3) The criteria set forth in Subsection B-1404(1) may be amended from time to time by agreement between the Corporation and the relevant Exchanges.

### **Section B-1405**

#### **PROCEDURE FOR ASSESSING THE EFFECT OF LISTING CHANGES ON INSTALMENT RECEIPTS OPTIONS ELIGIBILITY**

- (1) Original or Supplementary Listings

If a newly-established company has acquired a listed company, the trading record and history of the predecessor company may be used to test the options eligibility of the new company.

- (2) Name Changes

Corporate name changes have no effect on listed issues option eligibility. All statistics and history of the predecessor company continue to apply to the issues under the new corporate name.

- (3) Substitutional Listings

When a listing change, which is the result of a merger or acquisition involving the issuance or acquisition of listed shares has occurred, all listed issues connected with the change are reviewed. No decision to change the option status of a listed issue will occur until after the merger or acquisition is completed. The general process which applies is as follows:

- (a) On receipt of the notice of corporate change or following the closing date of a share purchase offer, it is confirmed that at least one predecessor company has Instalment Receipt Options currently listed on an Exchange, and these Instalment Receipt Options are not at or past the date where no new series may be listed if they are classified as delistable, nor is the underlying security for these Instalment Receipt Options classified as deficient according to Section B-1404 of the rules of the Corporation.
- (b) On receipt of the notice of corporate change or following the closing date of a share purchase offer, the secretaries of the companies will be requested to confirm that the number of actual and beneficial shareholders and the number of publicly held shares of the surviving company exceeds the option criteria in Section B-1403. No such confirmation is required for an offeror already designated as options eligible.
- (c) It is confirmed that the market price of the Instalment Receipts of the surviving company are trading at, or above, \$5.00 per receipt.

- (d) It is confirmed that, prior to the announcement of the take-over, merger or re-organization, the sum of the market capitalizations (including all common and preferred shares) of the predecessor companies was not less than \$500,000,000.
- (e) It is confirmed that the securities of the resultant company, evidenced by the Instalment Receipts are listed on an Exchange.

### **Section B-1406** **FAILURE TO DELIVER**

If the Clearing Member required to make delivery under Section B-403 fails to complete such delivery by the Exercise Settlement Date, the Corporation may purchase the undelivered Underlying Interest in the best available market for the account of the receiving Clearing Member. If the Underlying Interest is not available, the Corporation will require the delivering Clearing Member to settle by cash, determined by the closing Market Price on the day of exercise multiplied by the number of units.

### **Section B-1407** **ADJUSTMENTS IN TERMS**

- 1) Whenever there is a dividend, stock dividend, stock distribution, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, reclassification or similar event in respect of any underlying security, or a merger, consolidation, dissolution or liquidation of the issuer of any underlying security, the number of Instalment Receipt Options, the Unit of Trading, the Exercise Price and the underlying security, or any of them, with respect to all outstanding Instalment Receipt Options open for trading in that underlying security may be adjusted in accordance with this Section B-1407.
- 2) The Corporation, acting through the Adjustment Committee, shall determine whether to make adjustments to reflect particular events in respect of an underlying security, and the nature and extent of any such adjustment, based on its judgement as to what is appropriate for the protection of investors and the public interest, taking into account such factors as fairness to holders and writers of Instalment Receipt Options on the underlying security, the maintenance of a fair and orderly market in Instalment Receipt Options on the underlying security, consistency of interpretation and practice, efficiency of exercise settlement procedures, and the co-ordination with other clearing agencies of the clearance and settlement of transactions in the underlying security. The Adjustment Committee may, in addition to determining adjustments on a case-by-case basis, adopt statements of policy or interpretation having general application to specified types of events. Any such statements of policy or interpretation shall be disseminated to all Clearing Members, Exchanges and securities and/or derivative instruments regulatory authorities having jurisdiction over the Corporation. Every determination by the Adjustment Committee pursuant to this Section B-1407 shall be within the sole discretion of the Adjustment Committee and shall be conclusive and binding on all investors and not subject to review, other than review by securities and/or derivative instrument regulatory authorities having jurisdiction over the Corporation pursuant to applicable provisions of the respective statutes.
- 3) It shall be the general rule that there will be no adjustments to reflect ordinary cash dividends or distributions paid by the issuer of the security evidenced by an Instalment Receipt.

- 4) It shall be the general rule that in the case of any distribution made with respect to securities evidenced by an Instalment Receipt, other than cash distributions subject to Subsection (3) of this Section B-1407, if an adjustment is determined by the Adjustment Committee to be appropriate,
- i) the Exercise Price in effect immediately prior to such event shall be reduced by the value per Instalment Receipt of the distributed property, in which event the Unit of Trading shall not be adjusted; or
  - ii) the Unit of Trading in effect immediately prior to such event shall be adjusted so as to include the amount of property distributed with respect to the securities evidenced by the number of Instalment Receipts represented by the Unit of Trading in effect prior to such adjustment, in which event the Exercise Price shall not be adjusted.

The Adjustment Committee shall, with respect to adjustments under this Subsection or any other Subsection of this Section B-1407, have the authority to determine the value of distributed property.

- 5) In the case of any event for which adjustment is not provided in any of the foregoing Subsections of this Section B-1407, the Adjustment Committee may make such adjustments, if any, with respect to the Instalment Receipt Option affected by such event as the Adjustment Committee determines.
- 6) Adjustments pursuant to this Section B-1407 as a general rule shall become effective in respect of Instalment Receipt Options outstanding on the “ex-date” established by the Exchange or Exchanges on which the Underlying Instalment Receipt is traded. In the event that the “ex-date” for an Underlying Instalment Receipt traded on Exchanges differs from one Exchange to the other, the Corporation shall deem the earliest date to be the “ex-date” for the purposes of this Section B-1407. “Ex-dates” established by any other exchange or exchanges on which an Underlying Instalment Receipt may be traded shall be disregarded.
- 7) It shall be the general rule that:
- i) all adjustments of the Exercise Price of an outstanding Instalment Receipt Option shall be rounded to the nearest \$0.05, and all adjustments of the unit of trading shall be rounded down to eliminate any fraction; and
  - ii) if the Unit of Trading is rounded down to eliminate a fraction, the adjusted Exercise Price shall be further adjusted, to the nearest \$0.05, to reflect any diminution in the value of the Instalment Receipt Option resulting from the elimination of the fraction.
- 8) Notwithstanding the general rules set forth in Subsections (3) through (7) of this Section B-1407 or which may be set forth under Interpretations and Policies of this Section B-1407, the Adjustment Committee shall have the power to make exceptions in those cases or groups of cases in which, in applying the standards set forth in Subsection (2) thereof the Adjustment Committee shall determine such exceptions to be appropriate. However, the general rules shall be applied unless the Adjustment Committee affirmatively determines to make an exception in a particular case or group of cases.

## INTERPRETATIONS AND POLICIES

A cash dividend or distribution on a class of shares in an amount which does not exceed 10% of the market value (as of the close of trading on the trading day prior to the date on which such dividend or distribution is announced) of the class of shares evidenced by the Instalment Receipts (and not the market value of the

Instalment Receipts themselves) will, as a general rule, be deemed to be “ordinary cash dividends or distributions” within the meaning of Subsection (3) of this Section B-1407. The Adjustment Committee will determine on a case-by-case basis whether other cash dividends or distributions are “ordinary cash dividends or distributions” or whether they are dividends or distributions for which an adjustment should be made.

Where the Adjustment Committee determines to adjust for a cash dividend or distribution, the adjustment shall be made in accordance with Subsection (6) of this Section B-1407.

Adjustments will not ordinarily be made to reflect the issuance of so-called “poison pill” rights that are not immediately exercisable, trade as a unit or automatically with the underlying security, and may be redeemed by the issuer. In the event such rights become exercisable, begin to trade separately from the underlying security, or are redeemed, the Adjustment Committee will determine whether an adjustment is appropriate.

Adjustments will not be made to reflect a take-over bid or issuer bid made for the underlying security, whether such offer is for cash, securities or other property. This policy will apply without regard to whether the price of the underlying security may be favourably or adversely affected by the offer or whether the offer may be deemed to be “coercive”. Outstanding Instalment Receipt Options ordinarily will be adjusted to reflect a merger, amalgamation, arrangement or similar event that becomes effective following the completion of a take-over bid.

### **Section B-1408**

#### **DELIVERY OF INSTALMENT RECEIPTS AFTER “EX” DATE**

- (1) When an Exercise Notice is properly tendered to the Corporation prior to the “ex-dividend” date (as fixed by an Exchange on which the Underlying Interest is listed) for a distribution that causes an adjustment to be made pursuant to the Rules, the delivering Clearing Member shall make delivery as required by such adjustment unless the delivering Clearing Member, the receiving Clearing Member and the Corporation otherwise agree.
- (2) When an Exercise Notice is properly tendered to the Corporation prior to the “ex-dividend” date for a distribution that does not cause an adjustment to be made pursuant to the Rules, and delivery of the Underlying Interest is made too late to enable the receiving Clearing Member to transfer the Underlying Interest into its name and to receive such distribution, the delivering Clearing Member shall, at the time of delivery, issue its cheque to the receiving Clearing Member for the amount of the distribution, which cheque shall be payable on the payment date of such distribution.
- (3) When an Underlying Interest is listed on more than one Exchange and differing “ex-dividend” dates are fixed by the Exchanges, the earliest date will be considered the “ex-dividend” date for purposes of this Section B-1408.



## **RULE B-15**

### **SPONSORED OPTIONS**

This Rule B-15 is applicable only to the European or American Style Sponsored Options. The Underlying Interest for a Sponsored Option can be an Index or a Stock.

#### **Section B-1501**

#### **DEFINITIONS**

Notwithstanding Section A-102 for the purposes of Sponsored Options the following terms shall have the meanings specified:

**“Aggregate Exercise Date Value”** – in the case of a Sponsored Option where the Underlying Interest is an Index, is the closing or opening level of the Index (as specified by its contract specifications) on the Exercise Date multiplied by \$1.00 and multiplied by the number of Units of Trading; and, in the case of Sponsored Options where the Underlying Interest is a Stock, is the closing or opening price of the Stock on the Exercise Date multiplied by the number of Units of Trading;

**“Aggregate Exercise Price”** – the Exercise Price of a Sponsored Option multiplied by the number of Units of Trading of the Underlying Interest covered by the Sponsored Option;

**“Call Exercise Settlement Amount”** – the cash difference when the Aggregate Exercise Price is deducted from the Aggregate Exercise Date Value and multiplied by the Foreign Exchange Rate;

**“Delivery”** – physical delivery made in accordance with the delivery procedure of CDS or any other Central Securities Depository authorised by the Corporation on the Exercise Settlement Date, or on a day as otherwise determined by the Corporation;

**“Exercise Date”** – with respect to any particular Sponsored Option, the date on which the said Option is exercised pursuant to Section B-1506;

**“Exercise Settlement Date”** – the date specified by Bourse de Montréal Inc.;

**“Expiration Date”** – the date specified by Bourse de Montréal Inc.;

**“Foreign Exchange Rate”** – the designated closing CAN\$/foreign currency exchange spot rate as determined and reported by Bourse de Montréal Inc.;

**“Put Exercise Settlement Amount”** – The cash difference when the Aggregate Exercise Date Value is deducted from the Aggregate Exercise Price and multiplied by the Foreign Exchange Rate;

**“Recognized Exchange”** – a recognized exchange according to the definition in Rule One of Bourse de Montréal Inc.;

**“Sponsor”** – an entity approved by Bourse de Montréal Inc. for the purpose of sponsoring Sponsored Options;

**“Sponsored Option”** – an Option for which a Sponsor is the sole authorised writer;

**“Trading Volume”** – for the purposes of determining the eligibility or non-eligibility of an underlying interest to a Sponsored Option, the trading volume will include volume from all the Recognized Exchanges on which the Underlying Interest is traded;

**“Underlying Interest”** – Stocks and Indices meeting the criteria described in this Rule.

### **Section B-1502**

#### **ELIGIBILITY CONDITIONS OF A SPONSOR**

In order for an institution to act as a Sponsor it must satisfy the conditions established by Bourse de Montréal Inc. for a Sponsor of Sponsored Options and any other criteria established by the Corporation from time to time.

### **Section B-1503**

#### **APPROVAL OF UNDERLYING INTEREST**

- (1) The Stocks underlying the Sponsored Options issued by the Corporation shall be approved by the Board based on criteria described in Section B-1504 of the Rules.
- (2) Except for Sponsored Options, only one Class of Options shall be approved for any one corporation.

### **Section B-1504**

#### **ELIGIBILITY CONDITIONS FOR UNDERLYING INTERESTS OF SPONSORED OPTIONS**

In considering whether any Stock should be approved as the Underlying Interest of a Sponsored Option, the Corporation, in those circumstances where Section B-1505 does not apply, shall ensure that prior to being approved as an Underlying Interest the Stock meets all of the following criteria:

- (1) For Sponsored Options where the Underlying Interest is a Stock issued by a Canadian corporation, the Stock meets the Options eligibility criteria described in Section B-603.
- (2) For Sponsored Options where the Underlying Interest is a Stock issued by a non-Canadian entity, the Stock:
  - (i) trades on a Recognized Exchange; and
  - (ii) there are derivatives listed on a Recognized Exchange on that Underlying Interest.
- (3) For Sponsored Options where the Underlying Interest is an Index, the Index or the Index contract must be approved by Bourse de Montréal Inc.

### **Section B-1505**

#### **PROCEDURE FOR ASSESSING THE EFFECT OF STOCK LIST CHANGES ON SPONSORED OPTIONS ELIGIBILITY**

Section B-605 will apply to Sponsored Options where the Underlying Interest is a stock issued by a Canadian entity.

### **Section B-1506**

#### **EXERCISE OF SPONSORED OPTIONS**

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

- (i) on the Expiration Date all options will be exercised on a case by case basis in accordance with the contract specifications.
- (ii) in the case of American-style options, 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.

### **Section B-1507**

#### **TRADE REPORTING OF OPTIONS TRANSACTIONS**

Notwithstanding Subsection B-201(6) for Sponsored Options each Clearing Member shall have until 1.5 hours prior to the Close of Business on the Business Day following the day on which a transaction took place to notify the Corporation, in the form prescribed, of any error in the report provided to it under Subsection B-201(1). Unless such notification is received by the established deadline, transactions accepted by the Corporation and as contained in the report shall be final and binding upon the Clearing Members reported as parties to such transactions.

### **Section B-1508**

#### **ADJUSTMENTS**

- (1) Section A-902 as applicable to Derivative Instruments will apply to Sponsored Options where the Underlying Interest is an equity related product.
- (2) No adjustments will ordinarily be made in the terms of Sponsored Options where the Underlying Interest is an Index in the event that Underlying Securities are added to or deleted from an Index or when the relative weight of one or more Underlying Securities in an Index is changed. However, if the Corporation determines in its sole discretion that any such addition, deletion or change could cause significant discontinuity in the level of the Index, the Corporation may adjust the terms of the affected Sponsored Options by taking such actions as the Corporation in its sole discretion deems fair to the Clearing Member holding Long and Short Positions in the contracts. Determination with respect to adjustments pursuant to this Section shall be made by the Adjustment Committee provided for in Subsection A-902(2).

## Section B-1509

### UNAVAILABILITY OR INACCURACY OF AGGREGATE EXERCISE DATE VALUE

- (1) If the Corporation determines that the Aggregate Exercise Date Value for the Index underlying any series of Sponsored Options (the “**affected series**”) is unreported or otherwise unavailable for purposes of calculating the Call and Put Exercise Settlement Amounts for exercised Sponsored Options of the affected series, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
  - (a) Suspend the settlement obligations of exercising and assigned Clearing Members with respect to Sponsored Options of the affected series. At such time as the Corporation determines that the required Aggregate Exercise Date Value is available or the Corporation has fixed the Call and Put Exercise Settlement Amounts pursuant to Paragraph (b) of this Subsection, the Corporation shall fix a new date for settlement of the exercised Sponsored Option.
  - (b) Fix the Call and Put Exercise Settlement Amounts for exercised contracts of an affected series in accordance with the best information available as to the correct Aggregate Exercise Date Value.
- (2) The Aggregate Exercise Date Value of an Index as reported by Bourse de Montréal Inc. shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Aggregate Exercise Date Value, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Aggregate Exercise Date Value to be used for settlement purposes.

A) Section B-1510 through B-1511 inclusive apply to Sponsored Options Settled through Cash Settlement

## Section B-1510

### GENERAL RIGHTS AND OBLIGATIONS OF CLEARING MEMBERS

Notwithstanding Section B-110, for the purposes of cash settled Sponsored Options:

- (a) A Clearing Member holding a Long Position in a Call Option has the right, to receive from the Corporation, on tender of an Exercise Notice, the Call Exercise Settlement Amount;
- (b) A Clearing Member holding a Short Position in a Call Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay to the Corporation the Call Exercise Settlement Amount;
- (c) A Clearing Member holding a Long Position in a Put Option has the right, to receive from the Corporation, on tender of an Exercise Notice, the Put Exercise Settlement Amount; and
- (d) A Clearing Member holding a Short Position in a Put Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay to the Corporation the Put Exercise Settlement Amount.

### **Section B-1511**

#### **PAYMENT WITH RESPECT TO CASH SETTLED SPONSORED OPTIONS EXERCISED**

Notwithstanding the provisions of Sections B-403 to B-408 inclusive, for the purposes of Sponsored Options, exercised and assigned Sponsored Options shall be settled in cash at Settlement Time on the Exercise Settlement Date.

B) Section B-1512 through B-1513 inclusive apply to Sponsored Options Settled through Physical Delivery

### **Section B-1512**

#### **GOOD DELIVERABLE FORM OF STOCKS**

A Stock held at CDS or any other depository approved by the Corporation shall be deemed to be in good deliverable form for the purposes hereof only if the delivery of such Stock would constitute good delivery under the regulations, rules and policies of Bourse de Montréal Inc.

### **Section B-1513**

#### **DELIVERY OF STOCKS AFTER “EX” DATE**

- (1) When an Exercise Notice is properly tendered to the Corporation prior to the “ex-dividend” date (as fixed by an Exchange on which the Underlying Interest is listed) for a distribution that causes an adjustment to be made pursuant to the Rules, the delivering Clearing Member shall make delivery as required by such adjustment unless the delivering Clearing Member, the receiving Clearing Member and the Corporation otherwise agree.
- (2) When an Exercise Notice is properly tendered to the Corporation prior to the “ex-dividend” date for a distribution that does not cause an adjustment to be made pursuant to the Rules, and delivery of the Underlying Interest is made too late to enable the receiving Clearing Member to transfer the Underlying Interest into its name and to receive such distribution, the delivering Clearing Member shall, at the time of delivery, issue its cheque to the receiving Clearing Member for the amount of the distribution, which cheque shall be payable on the payment date of such distribution.
- (3) When an Underlying Interest is listed on more than one Exchange and differing “ex-dividend” dates are fixed by the Exchanges, the earliest date will be considered the “ex-dividend” date for purposes of this Section B-1513.

## **RULE B-16 CURRENCY OPTIONS**

This Rule B-16 is applicable only to European Style Options where the Underlying Interest is a currency. Such Options are referred to in this Rule B-16 as “**Currency Options**”.

### **Section B-1601 DEFINITIONS**

Notwithstanding Section A-102 for the purpose of European Style Currency Options the following terms shall have the meanings specified:

“**Aggregate Current Value**” – The Bloomberg FX Fixing (BFIX) at 12:30 p.m. New-York time fix, expressed in Canadian cents for one unit of foreign currency on the Expiration Date of the Option multiplied by the number of Units of Trading.

“**Aggregate Exercise Price**” – The Exercise Price of an Option multiplied by the number of Units of Trading of the Underlying Interest covered by the Option.

“**Call**” - An exchange-traded European Style Option which gives the holding Clearing Member the right to receive from the Corporation on the Expiration Date the Call Exercise Settlement Amount.

“**Call Exercise Settlement Amount**” – The cash difference when the Aggregate Exercise Price is deducted from the Aggregate Current Value.

“**Put**” – An exchange-traded European Style Option which gives the holding Clearing Member the right to receive from the Corporation on the Expiration Date the Put Exercise Settlement Amount.

“**Put Exercise Settlement Amount**” – The cash difference when the Aggregate Current Value is deducted from the Aggregate Exercise Price.

“**Exercise Settlement Date**” – The Business Day following the Expiration Date.

“**Expiration Date**” – The third Friday of the month.

“**Underlying Interest**” – The foreign currency which is the subject of the option.

“**Unit of Trading**” – 10,000 units, or a multiple thereof, of foreign currency.

### **Section B-1602 TRADE REPORTING OF OPTIONS TRANSACTIONS**

Notwithstanding Subsection B-201(6) each Clearing Member shall have until 1.5 hours prior to the Close of Business on the Business Day following the day on which the trade took place to notify the Corporation, in the form prescribed, of any error, with the exception of the Expiration date. On Expiration date, the corporation must receive this notification 1.5 hours prior to the Close of Business on that Business Day. Unless such notification is received by the established cut-off hour, the exchange transactions accepted by

the Corporation and as contained in the report shall be final and binding upon the Clearing Members reported as parties to such transaction.

### **Section B-1603**

#### **EXPIRATION DATE EXERCISE PROCEDURE**

- (1) European Style Currency Options will be listed with American Style Options on the Expiry Report issued on the Expiration Date and all in-the-money Long Positions will be automatically exercised in accordance with Section B-307.
- (2) The term “**closing price**” as used in Section B-307 in reference to the currency underlying any European Style Currency Option shall mean the Bloomberg FX Fixing (BFIX) at 12:30 p.m. New-York time fix, expressed in Canadian cents on the Expiration Date as reported to the Corporation by the relevant Exchange.

### **Section B-1604**

#### **GENERAL RIGHTS AND OBLIGATIONS OF CLEARING MEMBERS**

Notwithstanding Section B-110, for the purposes of Currency Options:

- (a) A Clearing Member holding a Long Position in a Call Option has the right, on (and only on) the Expiration Date, to receive from the Corporation, on tender of an Exercise Notice, the Call Exercise Settlement Amount;
- (b) A Clearing Member holding a Short Position in a Call Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay to the Corporation the Call Exercise Settlement Amount;
- (c) A Clearing Member holding a Long Position in a Put Option has the right, on (and only on) the Expiration Date, to receive from the Corporation, on tender of an Exercise Notice, the Put Exercise Settlement Amount; and
- (d) A Clearing Member holding a Short Position in a Put Option is obligated, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay to the Corporation the Put Exercise Settlement Amount.



## **PART C – FUTURES**

### **RULE C-1**

#### **CLEARING OF EXCHANGE TRANSACTIONS RESPECTING FUTURES**

The provisions of this Part C shall apply only to Exchange Transactions which are trades in Futures issued by the Corporation, pursuant to these rules and to those Clearing Members who are required to make a base deposit to the Clearing Fund for Futures clearing as set out in Paragraph A-601(2)(b).

#### **Section C-101**

##### **RESPONSIBILITY OF MEMBERS FOR EXCHANGE TRANSACTIONS**

Every Clearing Member shall be responsible for the clearance of its own Exchange Transactions and of the Exchange Transactions of each Exchange member or non-member which has agreed with the Clearing Member that its transactions will be cleared by such Clearing Member. A copy of such clearing agreement shall be provided to the Corporation upon its request.

#### **Section C-102**

##### **MAINTENANCE OF ACCOUNTS**

- (1) Every Clearing Member shall establish and maintain with the Corporation the following accounts:
  - (a) One or more Firm Account(s) which shall be confined to Firm Transactions of such Clearing Member;
  - (b) A separate Market Maker Account for each Market Maker employed or sponsored by such Clearing Member; and
  - (c) One or more Client Account(s), which shall be confined to the Transactions of its Clients, if the Clearing Member conducts business with the public in Futures.

#### **Section C-103**

##### **AGREEMENT REGARDING ACCOUNTS**

Every Clearing Member agrees as follows:

- (1) In respect of any Firm Account:
  - (a) the Corporation shall have a first priority security interest and hypothec on all Long Positions, Short Positions, Securities, Underlying Interest, Underlying Interest Equivalent, Margin, and other Margin Deposits in respect of such account as security for all of the Clearing Member's obligations to the Corporation;
  - (b) the Corporation shall have the right to net all Opening Sell Transactions and Closing Sell Transactions against all Opening Buy Transactions and all Closing Buy Transactions with

respect to a same Series of Futures effected in such account, whether or not Transactions are denominated in the same currency; and

- (c) the Corporation may close out the Long Positions and Short Positions in such account and apply the proceeds thereof to the obligations of the Clearing Member to the Corporation, at any time, without prior notice to the Clearing Member.
- (2) Each Market Maker Account shall be confined to the Exchange Transactions of the Market Maker for which it is established. In addition, a Clearing Member who is registered with an Exchange as a Market Maker may maintain a separate Market Maker Account which shall be confined to such Clearing Member's Exchange Transactions in its capacity as a Market Maker.
- (3) Each Market Maker shall enter into an agreement with the Clearing Member which shall provide that the Market Maker agrees with the Clearing Member and the Corporation that:
- (a) the Corporation shall have a first priority security interest and hypothec on all Long Positions, Short Positions, Securities, Underlying Interest, Underlying Interest Equivalent, Margin, and other Margin Deposits in respect of such account as security for the Clearing Member's obligations to the Corporation in respect of all Exchange Transactions maintained in such account and Tender Notices assigned to such account;
  - (b) the Corporation shall have the right to net all Opening Sell Transactions and Closing Sell Transactions against all Opening Buy Transactions and Closing Buy Transactions with respect to a same Series of Futures effected in such account, whether or not Transactions are denominated in the same currency; and
  - (c) the Corporation may close out the Long Positions and Short Positions in such account and apply the proceeds thereof to the obligations of the Clearing Member to the Corporation in respect of all Exchange Transactions maintained in such account and Tender Notices assigned to such account, at any time, without prior notice to the Market Maker or the Clearing Member.
- (4) Notwithstanding Subsection A-701(3), in respect of any Client Account:
- (a) the Corporation shall have a first priority security interest and hypothec on all Long Positions and Short Positions, Securities, Underlying Interest, Underlying Interest Equivalent, Margin, and other Margin Deposits in respect of such account as security for the Clearing Member's obligations to the Corporation in respect of all Transactions maintained in such account and Tender Notices assigned to such account;
  - (b) the Corporation shall have the right to net all Opening Sell Transactions and Closing Sell Transactions against all Opening Buy Transactions and Closing Buy Transactions with respect to a same Series of Futures effected in such account, whether or not Transactions are denominated in the same currency; and
  - (c) the Corporation may close out the Long Positions and Short Positions in such account and apply the proceeds thereof to the obligations of the Clearing Member to the Corporation with respect to all the Transactions in such account, at any time, without prior notice to the Clearing Member or the Clients.

- (5) Each Clearing Member is responsible for all obligations owed to the Corporation in respect of every account opened by or in respect of such Clearing Member.
- (6) Amounts standing to the credit of a Clearing Member's account may be applied by the Corporation towards the payment of any sum whatsoever due by the Clearing Member to the Corporation, subject to Section C-109.

#### **Section C-104**

##### **NOVATION**

Through novation, the Corporation acts as central counterparty between each Clearing Member.

All Transactions that are submitted to the Corporation are registered in the name of the Clearing Member. Upon acceptance of the Transaction, novation occurs and the initial Transaction is replaced by two different transactions between the Corporation and each Clearing Member involved in the Transaction.

Each Clearing Member looks to the Corporation for the performance of the obligations under a Transaction and not to another Clearing Member. The Corporation shall be obligated to the Clearing Member in accordance with the provisions of these Rules. Furthermore, each client of a Clearing Member looks solely to the Clearing Member for performance of the obligations and not to the Corporation.

#### **Section C-105**

##### **FUTURES SUB-ACCOUNTS CONSOLIDATED ACTIVITY REPORT**

- (1) The acceptance of every Exchange Transaction by the Corporation shall be subject to the condition that the Exchange on which such Exchange Transaction occurred shall have provided the Corporation with the following trade information respecting such Exchange Transaction:
  - (a) the identity of the buying Clearing Member and the selling Clearing Member and the accounts in which the transaction is effected;
  - (b) the Series of Futures;
  - (c) the price of the Future;
  - (d) the number of Futures;
  - (e) in the case of a transaction in a Client Account, whether it is an opening or closing transaction; and
  - (f) such other information as may be required by the Corporation.
  - (g) In the event any transaction is rejected as herein provided, the Corporation shall promptly notify the Clearing Member and all other Clearing Members involved.
- (2) Following the receipt by the Corporation of the information referred to in Subsection (1) with respect to each Exchange Transaction effected by a Clearing Member in a day, the Corporation

shall produce a Futures Sub-Accounts Consolidated Activity Report with respect to each account of a Clearing Member containing the following information:

- (a) the incoming Long Positions and Short Positions;
- (b) the prior day's trades;
- (c) the position changes;
- (d) the closing Long Positions and Short Positions; and
- (e) the net dollar gain or net dollar loss for the day.

### **Section C-106**

#### **OBLIGATIONS OF THE CORPORATION**

An Exchange Transaction shall, subject to Section C-105, be deemed to have been accepted by the Corporation at the time the trade information in respect of such Exchange Transaction is received by the Corporation from the Exchange. Notwithstanding the foregoing, the Corporation may reject any Exchange Transaction submitted for clearing by a Non-Conforming Member. Upon the acceptance of an Exchange Transaction by the Corporation, the rights of the Clearing Members to such transaction shall be solely against the Corporation and the Corporation shall be obliged solely to the Clearing Members in accordance with the provisions of the Rules. Upon acceptance, the Corporation shall be obligated as follows:

- (a) in an Opening Buy Transaction, the Corporation shall be obligated to increase the purchasing Clearing Member's Long Position of such series in the account in which the Exchange Transaction was effected by the number of Futures purchased in such Exchange Transaction;
- (b) in an Opening Sell Transaction, the Corporation shall be obligated to increase the selling Clearing Member's Short Position of such series in the account in which the Exchange Transaction was effected by the number of Futures sold in such Exchange Transaction;
- (c) in a Closing Buy Transaction, the Corporation shall be obligated to reduce the purchasing Clearing Member's Short Position of such series in the account in which the Exchange Transaction was effected by the number of Futures purchased in such transaction;
- (d) in a Closing Sell Transaction, the Corporation shall be obligated to reduce the selling Clearing Member's Long Position of such series in the account in which the Exchange Transaction was effected by the number of Futures sold in such transaction.

### **Section C-107**

#### **NETTING OF OPEN LONG POSITIONS AND SHORT POSITIONS**

- (1) When any Clearing Member is long or short any Futures and desires to close out such position, he shall sell, in the case of a Long Position, and buy, in the case of a Short Position, the same quantity of the same Series of Futures.

- (2) A Long Position and a Short Position in the same Series of Futures in a particular Firm Account or particular Multi-Purpose Account shall be automatically netted in such account by the Corporation.
- (3) A Long Position or a Short Position in the same Series of Futures in a Client Account (excluding any Netted Client Account) shall be netted only if the Clearing Member informs the Corporation specifically that one is a closing transaction for another.

### **Section C-108**

#### **GENERAL RIGHTS AND OBLIGATIONS OF CLEARING MEMBERS**

- (1) Subject to the provisions of the Rules, a Clearing Member holding a Short Position has the obligation, commencing at the time of acceptance of the Future by the Corporation pursuant to this Rule C-1, to deliver or pay as directed by the Corporation as the aggregate Settlement Amount the amount or value of the Underlying Interest represented by such Future, all in accordance with the regulations, rules and policies of the Exchanges and these Rules.
- (2) A Clearing Member holding a long Futures position is obligated, upon the assignment to the Clearing Member of a Tender Notice in respect of such Future, to pay the aggregate Settlement Amount against delivery of the amount or value of the Underlying Interest represented by such Future, all in accordance with the regulations, rules and policies of the Exchanges and these Rules.

### **Section C-109**

#### **PAYMENT OF CREDIT BALANCES**

- (1) In the event that a Clearing Member fails to pay any amount due with respect to any Future by Settlement Time, the Corporation may liquidate Transactions in the relevant account and apply the proceeds thereof to the payment of such debit balance or apply any Margin Deposits of the Clearing Member; provided, however, the Corporation shall not apply Margin Deposits with respect to a Client Account for the payment of any amount owing on Transactions in any account other than the relevant Client Account, and further, the Corporation shall not apply any Margin Deposits with respect to a Market Maker Account for the payment of any amount owing on Transactions in any account other than that Market Maker Account. Notwithstanding the foregoing, if the Clearing Member does not identify its Deposits with respect to each of its accounts, the Corporation may without distinction apply the Clearing Member's Margin Deposit to offset any amounts due by the Clearing Member with respect to the relevant Exchange Transaction regardless of the account to which it is booked.
- (2) If a Clearing Member is late in making a payment at Settlement Time, the Corporation shall impose fines and may deem that Clearing Member a Non-Conforming Member, in accordance with Section 7 of the Operations Manual. In addition, the Board may take disciplinary measures set forth in Rule A-5 against the Non-Conforming Member.

### **Section C-110**

#### **LONG POSITIONS**

The Long Position of a Clearing Member in a Series of Futures in a particular account will be created upon the Corporation's acceptance of an Opening Buy Transaction of one or more Futures of such series in such account. The amount of such Long Position shall be the number of Futures so purchased and accepted, and such Long Position shall remain in force thereafter unless and until changed in accordance with the following:

- (a) the Long Position shall be increased by the number of Futures of such Series of Futures which are the subject of Opening Buy Transactions in such account which are accepted by the Corporation;
- (b) the Long Position shall be reduced by the number of Futures of such series which are the subject of Tender Notices assigned to the Clearing Member for such account;
- (c) the Long Position shall be reduced by the number of Futures of such series which are the subject of Closing Sell Transactions in such account which are accepted by the Corporation;
- (d) the Long Position shall be increased by the number of Long Positions of such Series of Futures transferred to such account, with the consent of the Clearing Member and the Corporation, from another account of the Clearing Member or from another Clearing Member;
- (e) the Long Position shall be reduced by the number of Long Positions of such Series of Futures transferred from such account, with the consent of the Clearing Member and the Corporation, to another account of the Clearing Member or to another Clearing Member; and
- (f) the Long Position may be closed out or transferred by the Corporation in accordance with these Rules, including, without limitation, upon the occurrence of any default by the Clearing Member or upon the Clearing Member's suspension, expulsion, termination of membership, or insolvency.

### **Section C-111**

#### **SHORT POSITIONS**

The Short Position of a Clearing Member in a Series of Futures in a particular account will be created upon the Corporation's acceptance of such Clearing Member's Opening Sell Transaction in such account in respect of one or more Futures of such series. The amount of such Short Position shall be the number of such Futures involved in such transaction, and the Short Position shall remain in force from day to day thereafter unless and until changed in accordance with the following:

- (a) the Short Position shall be increased by the number of Futures of such series which are the subject of Opening Sell Transactions in such account and accepted by the Corporation;

- (b) the Short Position shall be reduced by the number of Futures of such series for which the Clearing Member files a Tender Notice with the Corporation;
- (c) the Short Position shall be reduced by the number of Futures of such series which are the subject of Closing Buy Transactions in such account which are accepted by the Corporation;
- (d) the Short Position shall be increased by the number of Futures of such series transferred to such account, with the consent of the Clearing Member and the Corporation, from another account of the Clearing Member or from another Clearing Member;
- (e) the Short Position shall be reduced by the number of Futures of such series transferred from such account, with the consent of the Clearing Member and the Corporation, to another account of the Clearing Member or to another Clearing Member; and
- (f) the Short Position may be closed out or transferred by the Corporation in accordance with these Rules, including, without limitation, upon the occurrence of any default by the Clearing Member or upon the Clearing Member's suspension, expulsion, termination of membership, or insolvency.

### **Section C-112**

#### **AGREEMENTS OF A SELLING CLEARING MEMBER IN AN OPENING SELL TRANSACTION**

The selling Clearing Member in an Opening Sell Transaction agrees with the Corporation that:

- (a) upon the Corporation's acceptance of such transaction, the Short Position of the Clearing Member in the account in which the transaction is effected shall be created or increased, and subsequently maintained, in accordance with Section C-111;
- (b) so long as such Short Position is thereafter maintained, the selling Clearing Member shall make all required margin payments in accordance with these Rules; and
- (c) in the event that such Clearing Member submits a Tender Notice in respect of such Short Position, the Clearing Member will meet its obligations as specified in Section C-108.

### **Section C-113**

#### **AGREEMENTS OF A BUYING CLEARING MEMBER IN AN OPENING BUY TRANSACTION**

The buying Clearing Member in an Opening Buy Transaction agrees with the Corporation that:

- (a) upon the Corporation's acceptance of such transaction, the Long Position of the Clearing Member in the account in which the transaction is effected shall be created or increased and subsequently maintained in accordance with Section C-110;
- (b) so long as such Long Position is thereafter maintained, the buying Clearing Member shall make all required margin payments in accordance with these rules; and



- (c) in the event that any Tender Notice is assigned to such Clearing Member, it shall meet its obligations as specified in Section C-108.

#### **Section C-114**

#### **CLOSING TRANSACTIONS**

- (1) A Clearing Member shall not effect a closing transaction in respect of a Long Position in a series of Futures in an account unless, at the time of such transaction, such Clearing Member has a Long Position in such account for at least the number of Futures of that series involved in such transaction.
- (2) A Clearing Member shall not effect a closing transaction in respect of a Short Position in a Series of Futures in an account unless, at the time of such transaction, such Clearing Member has a Short Position in such account for at least the number of Futures of that series involved in such transaction.
- (3) The Clearing Member in a closing transaction agrees that, upon the Corporation's acceptance of such transaction, the Corporation shall reduce the Clearing Member's Long or Short Position, as the case may be, in the account through which the transaction was effected by the number of Futures involved.

## **RULE C-2 TRADE REPORTING**

### **Section C-201 TRADE REPORTING**

- (1) On the morning of the following Business Day, the Corporation shall issue to each Clearing Member who engaged in one or more Exchange Transactions in Futures or who clears for another Exchange Member who engaged in one or more Exchange Transactions in Futures, as reported to the Corporation by an Exchange, a report (“**Futures Sub-Accounts Consolidated Activity Report**”), covering each Exchange Transaction in Futures made on such Exchange during such previous Business Day and cleared through a Clearing Member. The report shall show for each transaction:
  - (a) the identity of the purchasing Clearing Member and the selling Clearing Member and the account in which the transaction was effected;
  - (b) the Class and Series of these Futures;
  - (c) the price of the Future;
  - (d) the number of Futures;
  - (e) whether it is a buy or sell transaction;
  - (f) in the case of a transaction in a Client Account, whether it is an opening or closing transaction; and
  - (g) such other information as may be required by the Corporation.
- (2) The Corporation shall add to the Futures Sub-Accounts Consolidated Activity Report with respect to each account of a Clearing Member the following:
  - (a) the incoming positions;
  - (b) the prior day’s trades;
  - (c) the position changes;
  - (d) the closing positions; and
  - (e) the net dollar gain or net dollar loss for the day.
- (3) It shall be the responsibility of each Clearing Member to ensure that the Futures Sub-Accounts Consolidated Activity Report is correct. If errors exist it shall be the further responsibility of each Clearing Member where possible to reconcile such errors with the Clearing Member on the opposite side of the Exchange Transaction. If the difference cannot be reconciled, the trade must be reported to the Corporation as a rejected trade by both Clearing Members participating in it.

- (4) Each Clearing Member shall have until 1.5 hours prior to the Close of Business on the Business Day following the day on which the trade took place to notify the Corporation, in the form prescribed, of any error. Unless such notification is received by the established cut-off hour, and unless the correction of such error is not rejected by the Corporation which is entitled to do so if it deems appropriate in its sole discretion, the Exchange Transactions accepted by the Corporation and as contained in the Futures Sub-Accounts Consolidated Activity Report shall be final and binding upon the Clearing Members reported as parties to such transactions.
- (5) Each Clearing Member shall be responsible to the Corporation in respect of each Exchange Transaction in Futures reported to the Corporation by an Exchange in which such Clearing Member is identified as a purchasing Clearing Member or selling Clearing Member whether or not such Exchange report was correct unless the Corporation is notified of any errors in compliance with this Section C-201.
- (6) Each Clearing Member shall be responsible for the prompt reporting to the Corporation of any subsequent information, relating to the trade data listed in Subsection C-201(1), which becomes known and which will change the positions of that Clearing Member as recorded by the Corporation.

## **RULE C-3 SETTLEMENT**

### **Section C-301 SETTLEMENT PRICE**

The Settlement Price of a Series of Futures for each day shall be the amount determined by the Exchange on which the Future trades taking into account the closing prices of the series for that day and, where there is not a closing price for that day, the average of the closing bid and asked prices of that series for that day and such other information as the Exchange considers relevant.

### **Section C-302 SETTLEMENT OF GAINS AND LOSSES**

- (1) The gain or loss on a Futures position which was opened on that Business Day shall be the difference between the Trade Price and the Settlement Price of that Series of Futures for that day.
- (2) The gain or loss on a Futures position which was both opened and closed on that Business Day shall be the difference between the two Trade Prices.
- (3) The gain or loss on a Futures position which was opened on a previous Business Day shall be the difference between the Settlement Price of that Series of Futures for the immediately preceding Business Day and the Settlement Price of that Series of Futures for that day.

### **Section C-303 ADVANCE CALL FOR SETTLEMENT OF LOSSES**

If the market conditions or price fluctuations are such that the Corporation deems it necessary, it may call upon any Clearing Member which in its opinion is affected to deposit with the Corporation by such time as it shall specify, a certified cheque, bank transfer or wire transfer of funds, for the amount of funds that it estimates will be needed to meet such losses as the Corporation considers may be necessary or advisable. Credit shall be given to the Clearing Member for all such funds on the following Business Day.



## **RULE C-4 MARGIN REQUIREMENTS**

(Incorporated in Rule A-7)

**RULE C-5**  
**DELIVERY OF UNDERLYING INTEREST OF FUTURES**

**Section C-501**  
**DEFINITIONS**

Notwithstanding Section A-102 for the purposes of Delivery of Underlying Interest of Futures the following terms shall have the following meanings respectively:

**“Security Funds”** – means any additional deposit(s) by a Clearing Member required by the Corporation to be placed with the Corporation to ensure performance of a Clearing Member’s obligations; and

**“Time of Delivery”** – means the time by which a Clearing Member must make delivery of, or accept delivery and make payment in respect of, an Underlying Interest without being considered to have failed in its obligations under these Rules.

**Section C-502**  
**DELIVERY THROUGH THE CORPORATION**

Unless otherwise specified by the Corporation, delivery of the Underlying Interest and payment therefor shall be made through the Corporation pursuant to the forms and procedures prescribed by it, having regard to the Contract Specifications and the regulations, rules and policies of the Exchange on which it is traded.

**Section C-503**  
**SUBMISSION OF TENDER NOTICE**

- (1) A Clearing Member acting on behalf of the seller of a Future may, subject to the Contract Specifications and the regulations, rules and policies of the Exchange on which it is traded, make delivery of the Underlying Interest which is the subject of the Future. A Clearing Member desiring to make delivery shall submit to the Corporation a Tender Notice in such form and containing such information as the Corporation may prescribe. Every submission of a Tender Notice in accordance herewith shall be irrevocable.
- (2) Every Clearing Member holding a Short Position in a series of Futures at the Close of Business on the last day of trading in such series of Futures shall immediately tender a Tender Notice in respect of such Short Position.
- (3) Where the day of submitting a Tender Notice or the day of delivery is a holiday, the Corporation shall determine the day on which a Tender Notice may be submitted.
- (4) If a Clearing Member fails to deliver a Tender Notice as required by these Rules, the Corporation will submit a Tender Notice on behalf of that Clearing Member.

#### **Section C-504**

##### **ACCEPTANCE OF TENDER NOTICE**

A Tender Notice properly submitted to the Corporation in accordance with Section C-503 shall be accepted by the Corporation for assignment at the end of such Business Day.

#### **Section C-505**

##### **ASSIGNMENT OF TENDER NOTICE**

- (1) Tender Notices accepted by the Corporation shall be assigned, at the end of each Business Day on which the Contract Specifications permits Tender Notices to be tendered, in accordance with the Corporation's procedures of random selection, to Clearing Members with open Long Positions as of the close of trading on the day on which the Tender Notice is submitted.
- (2) A Tender Notice shall not be assigned to any Non-Conforming Member which has been suspended for default or insolvency. A Tender 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 C-506**

##### **NOTIFICATION OF TENDER AND ASSIGNMENT**

The Corporation will issue a Futures Tenders and Assignments Report on the following Business Day to each Clearing Member who submitted, or on whose behalf was submitted, a Tender Notice that was assigned and to each assigned Clearing Member. Such Report shall identify the delivering Clearing Member, the assigned Clearing Member, the quantity and description of the Underlying Interest to be delivered, the delivery date, the Settlement Amount and the account.

#### **Section C-507**

##### **ASSIGNMENT OF TENDER NOTICES TO CUSTOMERS**

Each Clearing Member shall establish fixed procedures for the allocation of Tender Notices assigned to it in respect of a Long Position in the Clearing Member's Client Account. The allocation shall be on a basis that is fair and equitable to the Clearing Member's clients and consistent with the regulations, rules and policies of the Exchange on which the Future is traded. Such allocation procedures and any changes thereto shall be reported to the Corporation on request.

#### **Section C-508**

##### **RESTRICTION ON ALLOCATION**

No Clearing Member shall permit, unless there is no alternative, the allocation of a Tender Notice in respect of a Long Position that was opened on the day of such allocation.



## **Section C-509**

### **EVIDENCE OF INTENT TO DELIVER**

Prior to the last day of trading, each Clearing Member shall require evidence for each account on its books that all positions in Futures which will not be offset on the last day of trading will be completed by delivery. If a customer of a Clearing Member is willing or unable to provide such evidence, the Clearing Member must liquidate the position on or before the last day of trading.

## **Section C-510**

### **OBLIGATION TO DELIVER**

The Clearing Member making delivery of an Underlying Interest pursuant to a Future (the “**delivering Clearing Member**”) shall deliver the Underlying Interest which is the subject of the Tender Notice in Good Deliverable Form against receipt of payment. Delivery of the Underlying Interest, when it is an Acceptable Security, will be subject to netting as described in Paragraph A-801(2)(d) and shall be made at such times as is provided in the rules of the Central Securities Depository and these Rules. Delivery of the Underlying Interest, when it is not an Acceptable Security, will be subject to Sections C-512 to C-521 and shall be made at such time as is provided in the regulations, rules and policies of the Exchanges and these Rules.

## **Section C-511**

### **OBLIGATION TO TAKE DELIVERY**

A Clearing Member who has been assigned to take delivery of an Underlying Interest pursuant to a Future (the “**assigned Clearing Member**”) shall accept delivery of the Underlying Interest which is the subject of the Future in Good Deliverable Form. Payment of delivery of the Underlying Interest, when it is an Acceptable Security, will be subject to netting as described in Paragraph A-801(2)(c) and shall be made at such times as is provided in the rules of the Central Securities Depository and these Rules. Payment of delivery of the Underlying Interest, when it is not an Acceptable Security, will be subject to Sections C-512 to C-521 and shall be made at such time as is provided in regulations, rules and policies of the Exchanges and these Rules.

## **Section C-512**

### **FAILURE TO DELIVER**

If the Clearing Member required to make delivery of an Underlying Interest other than an Acceptable Security under Section C-510 fails to complete such delivery by the time required for delivery in the regulations, rules and policies of the Exchanges and these Rules (a “**Failed Delivery**”), the delivering Clearing Member will become a Non-Conforming Member. The Corporation may take or cause, authorize or require to be taken whatever steps it may deem necessary to effect delivery to or otherwise settle with, the assigned Clearing Member. Without limiting the generality of the foregoing, the Corporation may acquire and deliver the Underlying Interest to the assigned Clearing Member, reimburse or pay to the assigned Clearing Member any additional financial costs incurred as a result of the assigned Clearing Member acquiring the Underlying Interest on the open market, enter into an agreement with the assigned Clearing Member and the delivering Non-Conforming Member relating to the failed delivery, and/or take such other action as the Corporation may, in its absolute discretion, deem appropriate or necessary in order

to ensure that a Non-Conforming Member's obligations are fulfilled. In the event the cost of effecting delivery to, or otherwise settling with, the assigned Clearing Member exceeds the settlement price at which the delivery was to be made, the Non-Conforming Member shall be liable for and shall promptly pay to the Corporation or the assigned Clearing Member as the case may be, the amount of such difference.

### **Section C-513**

#### **FAILURE TO ACCEPT DELIVERY**

If the Clearing Member who is assigned a Tender Notice with respect to delivery of an Underlying Interest other than an Acceptable Security under Section C-511 shall fail to accept delivery and make payment of the Settlement Amount to the delivering Clearing Member, or shall refuse to receive the Underlying Interest, or shall fail to pay the Settlement Amount for all the Underlying Interest or the documents of conveyance in respect thereof delivered to it in Good Deliverable Form in fulfilment of a Tender Notice, and such refusal or failure shall continue beyond the time required for delivery in the regulations, rules and policies of the Exchanges and these Rules, the assigned Clearing Member shall become a Non-Conforming Member. The Corporation may take or cause, authorize or require to be taken whatever steps it deems necessary to effect payment to, or otherwise to settle with, the delivering Clearing Member. Without limiting the generality of the foregoing, the Corporation or the delivering Clearing Member may, upon notice to the assigned Non-Conforming Member and, if such action is taken by the delivering Clearing Member, to the Corporation, sell out in the best available market, for the amount and liability of the assigned Non-Conforming Member, all or any part of the undelivered Underlying Interest. The assigned Non-Conforming Member shall be liable for and shall promptly pay to the delivering Clearing Member or the Corporation as the case may be, the difference, if any, between the Settlement Amount of the undelivered Underlying Interest and the price at which such Underlying Interest was sold-out.

### **Section C-514**

#### **PENALTIES AND RESTRICTIONS**

- (1) The Board shall set by resolution, from time to time, the penalties payable in the event that a Clearing Member fails to make delivery of an Underlying Interest other than an Acceptable Security or fails to accept delivery thereof and make the corresponding payment when required to do so in accordance with the Rules; provided, however, that the penalty for any single failure shall not exceed \$250,000. The amount of these penalties shall be in addition to any other sanctions that may be imposed by the Corporation under the Rules, including pursuant to Rule A-4 or A-5. If a Clearing Member fails to make delivery of an Underlying Interest other than an Acceptable Security or fails to accept delivery thereof and make the corresponding payment, as required under the Rules, such penalty shall be assessed against it commencing as of the Time of Delivery and continuing until the Non-Conforming Member's obligations to the Corporation are fulfilled or the Non-Conforming Member is suspended, whichever is the sooner.
- (2) Where at the Time of Delivery a delivering Clearing Member fails to make delivery of an Underlying Interest other than an Acceptable Security or an assigned Clearing Member fails to accept delivery thereof and make the corresponding payment, and becomes a Non-Conforming Member the Non-Conforming Member's clearing activities shall immediately be restricted to closing transactions as defined in these Rules, unless the Corporation determines that it is not necessary to impose such restriction, in whole or in part. This restriction shall continue until the Non-Conforming Member deposits Security Funds with the Corporation in accordance with

Sections C-516 and C-517, or, if such funds are not deposited, until otherwise determined by the Chairperson of the Board and any two directors. Nothing in this Subsection C-514(2) shall prevent the Corporation from immediately suspending a Non-Conforming Member.

### **Section C-515**

#### **NOTIFICATION OF FAILURE TO MAKE DELIVERY/MAKE PAYMENT**

The Corporation shall report a Non-Conforming Member, and all circumstances surrounding the transaction that the Corporation deems relevant or appropriate, to each of the Exchanges, any appropriate self-regulatory agency or regulatory agency, and to any other person or organization considered appropriate or necessary by the Corporation. Such notice may include, but is not restricted to, the following information: the identities of the delivering Clearing Member and the assigned Clearing Member, the notional value of the transaction, the issue to be delivered, the settlement amount and any other information considered appropriate or relevant by the Corporation.

### **Section C-516**

#### **SECURITY FUNDS**

Security Funds shall be in the same form as deposits accepted by the Corporation pursuant to Section A-608.

### **Section C-517**

#### **DEPOSIT OF SECURITY FUNDS**

- (1) Where a Non-Conforming Member has failed to accept the delivery of an Underlying Interest other than an Acceptable Security and make payment therefor, it must deliver to the Corporation, within one hour after the Time of Delivery, Security Funds equal to the settlement value, or, in the absolute discretion of the Corporation, in an amount equal to the difference between the liquidating value of the Underlying Interest and the settlement value, or such other amount as the Corporation may determine. Upon such delivery, the calculation of penalties and implementation of restrictions, as provided for in Section C-514, shall end. The deposit of the Security Funds with the Corporation, after the required delivery time, does not discharge any obligation of such Non-Conforming Member to the Corporation including the payment of any penalties or payment of costs incurred by the Corporation in connection with the Non-Conforming Member's default, and does not preclude the suspension of such Non-Conforming Member pursuant to Section A-1A05, or the assessment of additional sanctions under Rule A-4 and Rule A-5.
- (2) Subject to Subsection A-701(3), the Security Funds deposited by a Non-Conforming Member shall be used, together with other Margin Deposits of the Non-Conforming Member, by the Corporation to effect delivery of or make payment in respect of the Underlying Interest, or otherwise meet the Corporation's obligations in respect of the transaction, or for any of the other purposes set forth in Subsection A-701(2).

### **Section C-518**

#### **EFFECTING DELIVERY/PAYMENT**

- (1) Where a delivering Non-Conforming Member has failed to make delivery of an Underlying Interest other than an Acceptable Security or an assigned Non-Conforming Member has failed to accept a delivery thereof and make payment therefor, the Corporation shall use any funds available to it for such purposes, in such manner as it shall, in its sole discretion, consider appropriate, to effect delivery of or make payment in respect of the Underlying Interest, or otherwise settle such failed transaction. The Corporation will endeavour to effect delivery or make payment as soon as practicable, given the nature of the Underlying Interest and all of the circumstances of the particular transaction.
- (2) Where the Corporation has effected delivery of an Underlying Interest other than an Acceptable Security or made payment therefor, or otherwise settled the transaction, and the cost of so doing exceeds the Security Funds (if any) deposited under Section C-517, and other Margin Deposits, the Non-Conforming Member shall be liable to and shall promptly pay the Corporation the amount of the excess, in addition to any penalties and other sanctions that may be assessed, and the Corporation's reasonable expenses, including legal fees.
- (3) Where the Corporation has effected delivery of an Underlying Interest other than an Acceptable Security or made payment therefor, or otherwise settled the transaction, and the cost of so doing is less than the Security Funds (if any) deposited under Section C-517, any excess, less all assessed penalties and reasonable expenses, including legal fees, incurred by the Corporation, will be promptly returned to the Non-Conforming Member.

### **Section C-519**

#### **OTHER POWERS OF THE CORPORATION**

Notwithstanding the foregoing, the Corporation shall have the power to require a Non-Conforming Member to deposit such other funds or Security as the Corporation may, in its discretion, determine is necessary or advisable given the nature and value of the Underlying Interest and all of the circumstances of the failed transaction. A Non-Conforming Member shall cooperate fully with the Corporation in respect of the failed transaction and shall promptly provide the Corporation with such information relating thereto and to the Non-Conforming Member, as the Corporation may request.

### **Section C-520**

#### **SUSPENSION AND OTHER DISCIPLINARY ACTION**

Notwithstanding any penalties or restrictions imposed on the Non-Conforming Member pursuant to Section C-514, the Corporation may suspend a Non-Conforming Member pursuant to Section A-1A05 or impose the sanctions provided for in Rules A-4 and A-5.



## **Section C-521**

### **FORCE MAJEURE OR EMERGENCY**

If delivery, settlement or acceptance or any precondition or requirement is prevented by *force majeure* or Emergency, the affected Clearing Member shall immediately notify the Exchange involved and the Corporation. The Exchange involved and the Corporation shall take such action as they deem necessary under the circumstances and their decision shall be binding upon all parties to the contract. Without limiting the generality of the foregoing, they may modify the Settlement Time and/or the settlement date; designate alternate or new delivery and settlement points or alternate or new procedures in the event of conditions interfering with the normal operations of approved facilities or delivery and settlement process; and/or fix a Settlement Price.

## **RULE C-6 FUTURES SPECIFICATIONS**

### **Section C-601 DESIGNATION OF FUTURES**

The Futures cleared through the Corporation shall be designated by reference to the Underlying Interest and the delivery or settlement day, month and year.

### **Section C-602 APPROVAL OF UNDERLYING INTERESTS AND CONTRACT SPECIFICATIONS**

The Underlying Interest and Contract Specifications of Futures cleared through the Corporation shall be approved by the Board following the recommendation of one or more Exchanges.

### **Section C-603 GOVERNMENT ORDERS, RULINGS**

Specifications shall be fixed as of the first day of trading of a Future except that all deliveries and settlements must conform to government regulations in force at the time of delivery or settlement. If any Canadian governmental agency or body issues an order, ruling, directive or law pertaining to the trading, government auction, delivery or settlement of the Underlying Interest of a Future, such order, ruling, directive, or law shall be construed to take precedence and become part of these rules and all Open Positions and new Futures shall be subject to such government order.

## RULE C-7 FUTURES ON STOCK INDICES

The Sections of this Rule C-7 are applicable only to Futures settling on a future date where the Underlying Interest is an Eligible Stock Index.

### Section C-701 DEFINITIONS

Notwithstanding Section A-102 for the purposes of Futures on Stock indices, the following terms are as defined:

**“Eligible Stock Index”** – means a stock index that is either the S&P/TSX 60 Index, the S7P/TSX Composite Index – Banks (Industry Group), the S&P/TSX Capped Utilities Index, the S&P/TSX Composite Index, the S&P/TSX World Gold Index, the S&P/TSX Capped Financials Index, the S&P/TSX Capped Information Technology Index, the S&P/TSX Capped Energy Index, the S&P/MX International Cannabis Index, the S&P/TSX 60 ESG Index or the S&P/TSX Composite ESG Index.

**“Exchange”** – means Bourse de Montréal Inc.

**“Final Settlement Price”** – means the settlement price determined by the Exchange as being the official opening level of the Eligible Stock Index on the day following the last day of trading, multiplied by the appropriate Multiplier.

**“Futures”** – means an undertaking to make settlement in cash on a future date of the difference between the Final Settlement Price and the Trade Price, multiplied by the appropriate Multiplier, pursuant to the standardized terms and conditions set forth in these Rules and in accordance with the by-laws, , rules and policies of the Exchange.

**“Multiplier”** – means the multiplier of a Futures on an Eligible Stock Index, as specified by the Exchange.

**“Underlying Interest”** – means the Eligible Stock Index underlying of the Futures.

**“Underlying Security”** – means any of the securities included in an Eligible Stock Index underlying a class of Futures on an Eligible Stock Index.

### Section C-702 FINAL SETTLEMENT IN CASH THROUGH THE CORPORATION

Unless otherwise specified by the Corporation, settlement of positions held in Series of Futures following the close of trading on the last day of trading shall be made on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the short and long Clearing Members. The amount to be paid or received in final settlement of:

- (a) each position opened prior to the last trading day is the difference between
  - (i) the Final Settlement Price, and



- (ii) the Settlement Price of the contract on the Business Day before the last trading day,

multiplied by the appropriate Multiplier; and

- (b) each position opened on the last trading day is the difference between

- (i) the Final Settlement Price, and

- (ii) the Trade price of the open contract

multiplied by the appropriate Multiplier.

### **Section C-703 TENDER NOTICES**

Rule C-5 shall not apply to Futures on Eligible Stock Indices as they are Cash-settled.

### **Section C-704 ADJUSTMENTS**

No adjustments will ordinarily be made in the terms of Eligible Stock Index Futures in the event that underlying securities are added to or deleted from an Eligible Stock Index or when the relative representation of one or more underlying securities underlying an Eligible Stock Index is changed. However, the Corporation may, at the request of the Exchange, adjust the terms of the affected Stock Index Futures.

### **Section C-705 UNAVAILABILITY OR INACCURACY OF CURRENT VALUE**

- (1) If the Corporation determines that the Final Settlement Price for an Eligible Stock Index underlying any series of Eligible Stock Index Futures is unreported or otherwise unavailable for purposes of calculating the Gains and Losses, then, in addition to any other actions that the Corporation may be entitled to take under these Rules, the Corporation may do any or all of the following:
  - (a) Suspend the Settlement of Gains and Losses. At such times as the Corporation determines that the required Final Settlement Price is available, the Corporation shall fix a new date for Settlement of the Gains and Losses.
  - (b) Fix the Final Settlement Price in accordance with the best information available as to the correct Final Settlement Price.
- (2) The Final Settlement Price as reported by the Exchange shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Final Settlement Price, it may take such action as it determines in its discretion to be



fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Final Settlement Price to be used for all settlements.

#### **Section C-706**

##### **PAYMENT AND RECEIPT OF PAYMENT OF THE TRADE PRICE**

The settlement value of the maturing contract shall be included with other settlement amounts on the daily Detailed Futures Consolidated Activity Report and the Futures Sub-Accounts Consolidated Activity Report.

## **RULE C-8**

### **DAILY SPOT INDEX FUTURES (SYMBOLS - TSE, TOI & TXX)**

The Sections of this Rule C-8 are applicable only to Futures settling on the day after trade where the Underlying Interest is a TSE Index.

#### **Section C-801**

##### **DEFINITIONS**

Notwithstanding Section A-102 for the purposes of Daily Spot Index Futures, the following terms are as defined:

**“Future”** – a contract to make settlement in cash on the day after trade of the difference between the Spot Settlement Price of the applicable Index and the Trade Price multiplied by the appropriate Multiplier pursuant to standardized terms and conditions set forth in these Rules and the by-laws, rules or regulations of an Exchange.

**“Multiplier”** – the factor used to calculate the size of the contract. TOI and TSE = \$10.00; TXX = \$500.00.

**“Spot Settlement Price”** – the Settlement Price at the end of the trading day in a series of Daily Spot Index Futures multiplied by the appropriate Multiplier.

**“TSE Index”** – a securities index specified by Toronto Stock Exchange which is determined by the inclusion and relative representation of the current market prices of a group of securities.

**“Underlying Interest”** – the TSE Index which is the subject of the Future.

#### **Section C-802**

##### **SETTLEMENT IN CASH THROUGH THE CORPORATION**

Unless otherwise specified by the Corporation settlement of positions held following the close of trading of Daily Spot Index Futures shall be made on the first Business Day following the trade. Settlement shall be made by an exchange of cash between the Corporation and each of the short and long Clearing Members. The amount to be paid or received in settlement of each contract is the difference between (i) the Spot Settlement Price and (ii) the Trade Price of the contract multiplied by the appropriate Multiplier.

#### **Section C-803**

##### **TENDER NOTICES**

Rule C-5 shall not apply to Daily Spot Index Futures as they are cash-settled.

## **Section C-804**

### **ADJUSTMENTS**

No adjustments will ordinarily be made in the terms of Daily Spot Index Futures in the event that underlying securities are added to or deleted from a TSE Index or when the relative weight of one or more underlying securities in a TSE Index is changed. However, if the Corporation shall determine in its sole discretion that any such addition, deletion, or change causes significant discontinuity in the level of a TSE Index, the Corporation may adjust the terms of the affected Daily Spot Index Futures by taking such action as the Corporation in its sole discretion deems fair to Clearing Members holding Long and Short Positions.

## **Section C-805**

### **UNAVAILABILITY OR INACCURACY OF CURRENT VALUE**

- (1) If the Corporation shall determine that the Spot Settlement Price for a TSE Index underlying any series of Daily Spot Index Futures is unreported or otherwise unavailable for purposes of calculating the Gains and Losses, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
  - (a) Suspend the Settlement of Gains and Losses. (At such times as the Corporation determines that the required Spot Settlement Price is available, the Corporation shall fix a new date for Settlement of the Gains and Losses); and
  - (b) Fix the Spot Settlement Price in accordance with the best information available as to the correct Spot Settlement Price.
- (2) The Spot Settlement Price as reported by the Exchange shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Spot Settlement Price it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Spot Settlement Price to be used for settlement purposes.

## **Section C-806**

### **PAYMENT AND RECEIPT OF PAYMENT OF THE TRADE PRICE**

The Trade Price will be included with other settlements on the daily Detailed Futures Consolidated Activity Report and Futures Sub-Accounts Consolidated Activity Report.



## **RULE C-9**

### **US DOLLAR FUTURES (SYMBOL - USD)**

The Sections of this Rule C-9 are applicable only to Futures where the Underlying Interest is U.S. \$50,000 herein referred to as “**U.S. Dollar Futures**”.

#### **Section C-901**

##### **DEFINITIONS**

“**Underlying Interest**” - U.S. \$50,000.

#### **Section C-902**

##### **SETTLEMENT IN CASH THROUGH THE CORPORATION**

Notwithstanding Section C-502 for the purposes of U.S. Dollar Futures, the following applies.

Settlement of positions held following the close of trading on the last day of trading of the settlement month shall be made on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the short and the long Clearing Members. The amount to be paid or received in final settlement of each U.S. Dollar contract is the difference between:

- (i) the Bloomberg FX Fixing (BFIX) at 12:30 p.m. New-York time fix, on the last day of trading, for one U.S. dollar in Canadian funds expressed to four decimal places and then multiplied by 50,000; and
- (ii) the Settlement Price of the U.S. Dollar Contract on the previous trading day multiplied by 500 or; for positions opened on the last trading day, the Trade Price of the open contract multiplied by 500.

#### **Section C-903**

##### **TENDER NOTICES**

Rule C-5 shall not apply to the U.S. Dollar Futures as they are cash-settled.

#### **Section C-904**

##### **PAYMENT AND RECEIPT OF PAYMENT OF THE TRADE PRICE**

The Trade Price will be included with other settlements on the daily Detailed Futures Consolidated Activity Report and Futures Sub-Accounts Consolidated Activity Report.

## RULE C-10 TREASURY BILL FUTURES II (SYMBOL -TBT)

The Sections of this Rule C-10 are applicable only to Futures where the Underlying Interest is 91-day Government of Canada Treasury Bills quoted in terms of the TFE T-Bill Index, herein referred to as “**T-Bill Futures II**”.

### Section C-1001 DEFINITIONS

Notwithstanding Section A-102 for the purposes of T-Bill Futures II the following terms are as defined:

“**Underlying Interest**” – means 91-day Government of Canada Treasury Bills, having an aggregate face value at maturity of \$1,000,000, quoted in terms of the TFE T-Bill Index.

### Section C-1002 DELIVERY STANDARDS

- (1) The delivery unit for T-Bill Futures II shall be Government of Canada Treasury Bills with maturities ranging from 89 to 93 days, with a discounted value of \$1 million at delivery.
- (2) The following formula shall be used to calculate the Settlement Amount of the delivery unit:

$$\text{Settlement Amount} = \frac{1}{1 + (\text{T-Bill Yield} \times \frac{\text{Terms to Maturity}}{365})} \times \$1,000,000$$

Where: T-Bill Yield = 100 - TFE T-Bill Index at settlement, multiplied by 0.01

Terms to Maturity = bills bearing maturity of 89 to 93 days from the first Day of Delivery.

The Settlement Amount shall be rounded to 2 decimal places.

- (3) In the event that an auction of 91-day Treasury Bills is not conducted for any week in the month which a delivery day occurs, or, if for any reason the potential supply of Treasury Bills available for delivery against a series of T-Bill Futures II appears to be inadequate, the Corporation shall have the authority to specify as deliverable on a T-Bill Futures II such other Government of Canada securities as it deems substitutable, and may specify any adjustments in the settlement amount that it considers appropriate and equitable.

### **Section C-1003**

#### **SUBMISSION OF TENDER NOTICES**

- (1) A Clearing Member who holds an open Short Position in T-Bill Futures II of the series in the current Delivery Month on any of the three Bank of Canada auction days immediately preceding the last Friday of the Delivery Month and who wishes to make delivery may do so by submitting a Tender Notice to the Corporation no later than the time established by the Corporation on such Bank of Canada auction day indicating the maturity of the T-Bill being delivered.
- (2) A Clearing Member who holds an open Short Position in T-Bill Futures II of the series in the current Delivery Month at the time that trading in that series has ceased shall submit a Tender Notice to the Corporation no later than the time established by the Corporation on such last day of trading indicating the maturity of the T-Bill being delivered.
- (3) The Clearing Member to whom a delivery has been assigned must confirm to the Corporation that delivery has been completed.

This Section C-1003 supplements Section C-503.

### **Section C-1004**

#### **DELIVERY THROUGH THE CORPORATION**

- (1) Day of Delivery - Delivery of Government of Canada Treasury Bills as required by this Rule shall be made by the Clearing Member on the first Business Day following tender, or on a day as otherwise determined by the Corporation.
- (2) Time of Delivery - Each Clearing Member who is to make or take delivery of Treasury Bills shall do so against or by payment of certified funds by no later than 2:45 p.m. on the Day of Delivery.
- (3) If delivery of the Underlying Interest by the delivering Clearing Member, or payment therefor by the assigned Clearing Member, is not effected by the time provided in Subsection C-1004(2), such Non-Conforming Clearing Member must inform the Corporation of such failure of the Non-Conforming Member no later than 3:00 p.m. on the Day of Delivery. The Non-Conforming Clearing Member shall notify the Corporation of the default of the Non-Conforming Member by telephone, with written notification sent by facsimile transmission or electronic mail to be provided as soon as possible.



## **RULE C-11**

### **LONG CANADA II FUTURES (SYMBOL - GCB)**

The Sections of this Rule C-11 are applicable only to Futures where the Underlying Interest is long-term Government of Canada Bonds of minimum 15 years maturity, herein referred to as “**Long Canada II Futures**”.

This Rule C-11 shall not be applicable to Futures where the Underlying Interest is a 30-year Canada Bond.

#### **Section C-1101**

##### **DEFINITIONS**

Notwithstanding Section A-102 for the purposes of Long Canada II Futures the following terms are as defined:

“**Underlying Interest**” – means long-term Government of Canada Bonds maturing in no less than 15 years and having an aggregate face value at maturity of \$100,000.

#### **Section C-1102**

##### **DELIVERY STANDARDS**

- (1) The delivery unit for Long Canada II Futures shall be Government of Canada Bonds which do not mature and are not callable for at least 15 years from the date of delivery, having a coupon rate of 9% and an aggregate face value at maturity of \$100,000. All bonds in a delivery unit must be of the same issue.
- (2) Substitution - at the option of the Clearing Member holding the Short Position, bonds with coupon rates other than 9% are deliverable, at a discount for bonds with coupons less than 9%, and at a premium for bonds with coupons more than 9%. The amount of premium or discount for each different deliverable issue shall be determined on the basis of yield equivalency with a 9% bond selling at par. The price at which a bond having a particular maturity and coupon rate will yield 9% shall be determined according to bond tables prepared by the Exchange on which the Future trades. The Settlement Amount of such delivery unit shall be \$1,000 multiplied by the product of such price and the Settlement Price of that series of Long Canada II Futures. Interest accrued on the bonds shall be charged to the Clearing Member taking delivery.
- (3) The Exchange on which the Future trades shall publish a list of deliverable issues prior to each Delivery Month. New issues of Government of Canada bonds which satisfy the standards of this Section shall be added to the deliverable list as they are issued by the Government of Canada. The Exchange shall have the right to exclude any new issue from deliverable status or to further limit outstanding issues from deliverable status, whether or not they otherwise satisfy the standards of this Section.

### **Section C-1103**

#### **SUBMISSION OF TENDER NOTICES**

- (1) A Clearing Member who holds a Short Position in the currently deliverable series and who wishes to make delivery must submit a Tender Notice to the Corporation no later than the time established by the Corporation on a Business Day from two Business Days preceding the first Business Day of the Delivery Month up to and including the second last Business Day preceding the last Business Day of the Delivery Month indicating the maturity of the Government of Canada Bonds being delivered.
- (2) A Clearing Member who, at the time that trading has ceased, holds a Short Position of the currently deliverable series shall submit a Tender Notice to the Corporation no later than the time established by the Corporation on such last day of trading indicating the maturity of the Government of Canada Bonds being delivered.

This Section C-1103 supplements Section C-503.

### **Section C-1104**

#### **DELIVERY THROUGH THE CENTRAL SECURITIES DEPOSITORY**

- (1) Day of Delivery – Delivery of long term Government of Canada bonds as required by this Rule shall be made by the Clearing Member on the second Business Day following submission of a Tender Notice, or on a day as otherwise determined by the Corporation.
- (2) Time of Delivery – Each Clearing Member who is to make delivery of long term Government of Canada bonds shall do so in accordance with Paragraph A-801(2)(d) and each Clearing Member who is to take delivery of long term Government of Canada bonds shall do so in accordance with Paragraph A-801(2)(c).
- (3) If delivery of the Underlying Interest by the delivering Clearing Member, or payment therefor by the assigned Clearing Member, is not effected by the Time of Delivery, Section A-804 shall apply.

**RULE C-12**  
**CANADIAN BANKER'S ACCEPTANCE FUTURES**  
**(SYMBOL BAR & BAX)**

The Sections of this Rule C-12 are applicable only to Futures where the Underlying Interest is a Canadian Bankers' Acceptance.

**Section C-1201**  
**DEFINITIONS**

Notwithstanding Section A-102 for the purposes of Canadian Bankers' Acceptance Futures, the following terms are as defined:

**“Canadian Bankers' Acceptance”** – means a bill of exchange that has been accepted by a Canadian chartered bank.

**“Canadian Bankers' Acceptance Index”** – The Canadian Bankers' Acceptance Index is determined based on the Canadian Bankers' Acceptance Reference Rate, expressed as an annualized yield based on a 365 day year.

– BAR – The Canadian Bankers' Acceptance Index for BAR is 100 minus the Canadian Bankers' Acceptance Reference Rate with a one-month maturity.

– BAX – The Canadian Bankers' Acceptance Index for BAX is 100 minus the Canadian Bankers' Acceptance Reference Rate with a three-month maturity.

**“Canadian Bankers' Acceptance Reference Rate”** – means the daily “Canadian Dollar Offered Rate (“CDOR”) as determined by the appointed CDOR benchmark administrator, currently Thomson Reuters, fixing on the last trading day of the contract month. The value of such CDOR shall be rounded to the nearest 1/1,000th of a percentage point. Any value ending in 0.0005, shall be rounded up.

**“Exchange”** – means the Bourse de Montréal Inc.

**“Final Settlement Price”** – means the Settlement Price quoted by the Exchange on which the Future trades at the close of trading on the last day on which such Future trades determined by subtracting from 100 the Canadian Bankers' Acceptance Reference Rate for such day.

**“Future”** – means an underlying to make settlement in cash on a future date of the difference between the Final Settlement Price and either the Trade Price or the Settlement Price on the previous day, multiplied by the appropriate Multiplier pursuant to the standardized terms and in accordance with the Rules, by-laws and policies of an Exchange.

**“Multiplier”** – means the multiplier of the Futures contract, as specified by the Exchange.

**“Underlying Interest”** means

– BAR – the Canadian Bankers' Acceptance Reference Rate with a one-month maturity.

- BAX - the Canadian Bankers' Acceptance Reference Rate with a three-month maturity.

### **Section C-1202**

#### **SETTLEMENT IN CASH THROUGH THE CORPORATION**

Unless otherwise specified by the Corporation, settlement of positions held following the close of trading on the last day of trading in Series of Futures shall be made on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the short and long Clearing Members. The amount to be paid or received in final settlement of

- (a) each position opened prior to the last trading day is the difference between
  - (i) the Final Settlement Price; and
  - (ii) the Settlement Price of the contract on the previous trading day multiplied by the appropriate Multiplier; and
- (b) each position opened on the last trading day is the difference between
  - (i) the Final Settlement Price; and
  - (ii) the Trade Price of the open contract multiplied by the appropriate Multiplier.

### **Section C-1203**

#### **TENDER NOTICES**

Rule C-5 shall not apply to Canadian Bankers' Acceptance Futures as they are cash-settled.

### **Section C-1204**

#### **ADJUSTMENTS**

No adjustments will ordinarily be made in the terms of Canadian Bankers' Acceptance Futures in the event that the Canadian Bankers' Acceptance Index is changed. However, if the Corporation determines, in its sole discretion, that any such change causes significant discontinuity in the level of the Canadian Bankers' Acceptance Index, the Corporation may adjust the terms of the affected Canadian Bankers' Acceptance Futures by taking such action as the Corporation in its sole discretion deems fair to Clearing Members holding Long and Short Positions.

In the event that a governmental agency or body issues an order, ruling, directive or law pertaining to the trading of the Canadian Bankers' Acceptance and the Corporation determines that a significant discontinuity in the level of the Canadian Bankers' Acceptance Index is caused by such a Government order, ruling, directive or law, it shall take such action as it deems necessary and fair under the circumstances.

## Section C-1205

### UNAVAILABILITY OR INACCURACY OF CURRENT VALUE

- (1) If the Corporation determines that the Final Settlement Price for any series of Canadian Bankers' Acceptance Futures is unreported or otherwise unavailable for purposes of calculating the gains and losses, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
  - (a) Suspend the Settlement of Gains and Losses. At such times as the Corporation determines that the required Final Settlement Price is available, the Corporation shall fix a new date for Settlement of the Gains and Losses.
  - (b) fix the Final Settlement Price in accordance with the best information available as to the Final Settlement Price.
- (2) The Final Settlement Price as reported by the Exchange shall be conclusively deemed to be accurate, except that where the Corporation determines, in its sole discretion, that there is a material inaccuracy in the reported Final Settlement Price, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Final Settlement Price to be used for settlement purposes.

## Section C-1206

### PAYMENT AND RECEIPT OF PAYMENT OF THE TRADE PRICE

The Trade price will be included with other settlements on the daily Detailed Futures Consolidated Activity Report and the Futures Sub-Accounts Consolidated Activity Report.

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## **RULE C-13**

### **10-YEAR CANADA BOND FUTURES (SYMBOL - CGB)**

The Sections of this Rule C-13 are applicable only to Futures where the Underlying Interest is Government of Canada bonds as defined in Section C-1302, herein referred to as “**10-year Canada Bond Futures**”.

#### **Section C-1301**

##### **DEFINITIONS**

Notwithstanding Section A-102 for the purposes of 10-year Canada Bond Futures the following terms are as defined:

“**Assignment File**” – means the computer file constructed to enable Tenders to be assigned on a first-in-first-out basis pursuant to Section C-1305.

“**Underlying Interest**” – means Government of Canada Bonds which meet the criteria established in Section C-1302 of this Rule.

#### **Section C-1302**

##### **DELIVERY STANDARDS**

(1) For 10-year Canada Bond Futures Expiring on or after June 2000.

- (a) The delivery unit for 10-Year Canada Bond Futures shall be Government of Canada Bonds which do not mature and are not callable for at least 8 years and no more than 10 1/2 years from the first calendar day of the Delivery Month, having a coupon rate of 6%, an aggregate face value at maturity of \$100,000, an outstanding face value, net of all potential purchases by the Government of Canada up until the end of the delivery period of the corresponding Delivery Month, of at least \$3.5 billion, are issued and delivered on or before the 15th calendar day preceding the first tender date corresponding to the Delivery Month of the contract, and which are originally issued at 10-year auctions.

All bonds in a delivery unit must be of the same issue.

- (b) Substitution - at the option of the Clearing Member holding the Short Position, bonds with coupon rates other than 6% are deliverable, at a discount for bonds with coupons less than 6%, and at a premium for bonds with coupons more than 6%. The amount of premium or discount for each different deliverable issue shall be determined on the basis of yield equivalency with a 6% bond selling at par. The price at which a bond having a particular maturity and coupon rate will yield 6% shall be determined according to bond tables prepared by the Exchange on which the Future trades. The Settlement Amount of such delivery unit shall be \$1,000 multiplied by the product of such price and the Settlement Price of that series of 10-year Canada Bond Futures. Interest accrued on the bonds shall be charged to the Clearing Member taking delivery.



(2) For all 10-year Canada Bond Futures

- (a) The Exchange on which the Future trades shall publish a list of deliverable issues prior to each Delivery Month. The time to maturity of a given issue is calculated in complete three month increments (rounded down to the nearest quarter) from the first day of the Delivery Month. New issues of Government of Canada bonds which satisfy the standards of this Section shall be added to the deliverable list as they are issued by the Government of Canada. In the event that, at any regular issue or auction, the Government of Canada reopens an existing bond not issued at a 10-year auction that would otherwise meet the standards of this Rule, thus rendering the existing issue indistinguishable from the newly issued one, then the older issue is deemed to meet the standards of this Rule and would be deliverable if the reopening of such an existing issue has a total minimum face value amount of \$3.5 billion during the last 12 month period preceding the first tender date of the contract month. The Exchange shall have the right to exclude any new issue from deliverable status or to further limit outstanding issues from deliverable status, whether or not they otherwise satisfy the standards of this Section.
- (b) In the event the Corporation determines that there exists a shortage of deliverable Government of Canada Bond issues it may designate as deliverable on a 10-year Canada Bond Futures such other Government of Canada issues as it deems suitable, and may specify any adjustments in the settlement amount that it considers appropriate and equitable.

### **Section C-1303**

#### **SUBMISSION OF TENDER NOTICES**

- (1) A Clearing Member who holds a Short Position in the currently deliverable series and who wishes to make delivery must submit a Tender Notice to the Corporation no later than the time established by the Corporation on a Business Day from two Business Days preceding the first Business Day of the Delivery Month up to and including the second last Business Day preceding the last Business Day of the Delivery Month indicating the maturity of the Government of Canada bonds being delivered.
- (2) A Clearing Member who, at the time that trading has ceased, holds a Short Position of the currently deliverable series shall submit a Tender Notice to the Corporation indicating the maturity of the Government of Canada Bonds being delivered. Such Notice must be tendered no later than the second Business Day preceding the last Business Day of the Delivery Month.

This Section C-1303 supplements Section C-503.

### **Section C-1304**

#### **DELIVERY THROUGH THE CENTRAL SECURITIES DEPOSITORY**

- (1) Day of Delivery - Delivery of Government of Canada bonds as required by this Rule shall be made by the Clearing Member on the second Business Day following submission of a Tender Notice, or on a day as otherwise determined by the Corporation. Delivery must be made no later than the last Business Day of the Delivery Month.

- (2) Time of Delivery - Each Clearing Member who is to make delivery of Government of Canada bonds shall do so in accordance with Paragraph A-801(2)(d) and each Clearing Member who is to take delivery of Government of Canada bonds shall do so in accordance with Paragraph A-801(2)(c).
- (3) If delivery of the Underlying Interest by the delivering Clearing Member, or payment therefor by the assigned Clearing Member, is not effected by the Time of Delivery, Section A-804 shall apply.

### **Section C-1305**

#### **ASSIGNMENT OF TENDER NOTICE**

- (1) Tender Notices accepted by the Corporation shall be assigned, at the end of each Business Day on which the Contract Specifications permits Tender Notices to be tendered, to Clearing Members with open Long Positions as of the close of trading on the day on which the Tender Notice is submitted. Tenders Notices will be assigned in accordance with the Corporations procedures of assigning Tender Notices to the oldest open contract (First In, First Out).
- (2) A Tender Notice shall not be assigned to any Non-Conforming Member which has been suspended for default or insolvency. A Tender 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.

This Section C-1305 replaces Section C-505.

### **Section C-1306**

#### **ASSIGNMENT FILE PROCEDURES**

The following rule shall apply to the compilation of the Assignment File.

- (1) On the sixth Business Day preceding the first Business Day of the Delivery Month each Clearing Member holding Long Positions in the relevant Series of Futures must enter into the Assignment File in CDCS all the Clearing Member's Long Positions in that Series of Futures in chronological order.
- (2) Prior to the Close of Business on each subsequent Business Day up to and including the next to last Business Day on which Tender Notices may be submitted, each Clearing Member shall access the Assignment File and either make changes to reflect the current chronological order of all Long Positions in the relevant Series of Futures or confirm that the existing Assignment File records are correct.
- (3) Every Clearing Member shall ensure that an Authorized Representative is available by telephone to the Corporation until the Close of Business on every day on which an amendment to the Assignment File can be made.
- (4) It shall be the duty of each Clearing Member to review daily the relevant reports available on CDCS.

- (5) Failure to access the Assignment File and maintain the current chronological order of all the Clearing Member's Long Positions in the relevant Series of Futures on a daily basis or to have an Authorized Representative available by telephone shall be deemed a violation of the Rules pursuant to Paragraph A-1A04(4)(a) and shall be subject to disciplinary action pursuant to Rule A-4 and Rule A-5.

## RULE C-14 5-YEAR CANADA BOND FUTURES

The Sections of this Rule C-14 are applicable only to Futures where the Underlying Interest is Government of Canada bonds as defined in Section C-1402, herein referred to as “**5-year Canada Bond Futures**”.

### Section C-1401 DEFINITIONS

Notwithstanding Section A-102 for the purposes of 5-year Canada Bond Futures the following terms are as defined:

“**Assignment File**” – means the computer file constructed to enable Tenders to be assigned on a first-in-first-out basis pursuant to Section C-1405.

“**Underlying Interest**” – means Government of Canada Bonds which meet the criteria established in Section C-1402 of this Rule.

### Section C-1402 DELIVERY STANDARDS

- (1) The delivery unit for 5-year Canada Bond Futures shall be Government of Canada Bonds which do not mature and are not callable for a minimum of 4 years six months and no more than 5 years six months from the first calendar day of the Delivery Month, having a coupon rate of 6%, an aggregate face value at maturity of \$100,000, an outstanding face value, net of all potential purchases by the Government of Canada up until the end of the delivery period of the corresponding Delivery Month, of at least \$3 billion, are issued and delivered on or before the 15th calendar day preceding the first tender date corresponding to the Delivery Month of the contract, and which have been originally issued at 5-year Government of Canada bond auctions. All bonds in a delivery unit must be of the same issue.
- (2) Substitution - at the option of the Clearing Member holding the Short Position, bonds with coupon rates other than 6% are deliverable, at a discount for bonds with coupons less than 6%, and at a premium for bonds with coupons more than 6%. The amount of premium or discount for each different deliverable issue shall be determined on the basis of yield equivalency with a 6% bond selling at par. The price at which a bond having a particular maturity and coupon rate will yield 6% shall be determined according to bond tables prepared by the Exchange on which the Future trades. The Settlement Amount of such delivery unit shall be \$1,000 multiplied by the product of such price and the Settlement Price of that series of 5-year Canada Bond Futures. Interest accrued on the bonds shall be charged to the Clearing Member taking delivery.
- (3) The Exchange on which the Future trades shall publish a list of deliverable issues prior to each Delivery Month. The time to maturity of a given issue is calculated in complete one month increments (rounded down to the entire one month period) from the first calendar day of the Delivery Month. New issues of Government of Canada bonds which satisfy the standards of this Section shall be added to the deliverable list as they are issued by the Government of Canada. In the event that, at any regular issue or auction, the Government of Canada reopens an existing issue

which has an original maturity of more than 5 years nine months but would otherwise meet the standards of this Rule, thus rendering the existing issue indistinguishable from the newly issued one, then the older issue is deemed to meet the standards of this Rule and would be deliverable if the reopening of such an existing issue has a total minimum face value amount of \$3 billion during the last 12 month period preceding the first tender date of the contract month. The Exchange shall have the right to exclude any new issue from deliverable status or to further limit outstanding issues from deliverable status, whether or not they otherwise satisfy the standards of this Section.

- (4) In the event the Corporation determines that there exists a shortage of deliverable Government of Canada Bond issues it may designate as deliverable on a 5-year Canada Bond Futures such other Government of Canada issues as it deems suitable, and may specify any adjustments in the settlement amount that it considers appropriate and equitable.

### **Section C-1403**

#### **SUBMISSION OF TENDER NOTICES**

- (1) A Clearing Member who holds a Short Position in the currently deliverable series and who wishes to make delivery must submit a Tender Notice to the Corporation no later than the time established by the Corporation on a Business Day from two Business Days preceding to the first Business Day of the Delivery Month up to and including the second last Business Day preceding the last Business Day of the Delivery Month indicating the maturity of the Government of Canada bonds being delivered.
- (2) A Clearing Member who, at the time that trading has ceased, holds a Short Position of the currently deliverable series shall submit a Tender Notice to the Corporation indicating the maturity of the Government of Canada Bonds being delivered. Such Notice must be tendered no later than the second Business Day preceding the last Business Day of the Delivery Month.
- (3) The Clearing Member to whom a delivery has been assigned must confirm to the Corporation that delivery has been completed.

This Section C-1403 supplements Section C-502.

### **Section C-1404**

#### **DELIVERY THROUGH THE CLEARING CORPORATION**

- (1) Day of Delivery - Delivery of Government of Canada bonds as required by this Rule shall be made by the Clearing Member on the second Business Day following submission of a Tender Notice, or on a day as otherwise determined by the Corporation. Delivery must be made no later than the last Business Day of the Delivery Month.
- (2) Time of Delivery - Each Clearing Member who is to make delivery of long term Government of Canada bonds shall do so in accordance with Paragraph A-801(2)(d) and each Clearing Member who is to take delivery of long term Government of Canada bonds shall do so in accordance with Paragraph A-801(2)(c).

If delivery of the Underlying Interest by the delivering Clearing Member, or payment therefor by the assigned Clearing Member, is not effected by the Time of Delivery, Section A-804 shall apply.

### **Section C-1405**

#### **ASSIGNMENT OF TENDER NOTICE**

- (1) Tender Notices accepted by the Corporation shall be assigned, at the end of each Business Day on which the Contract Specifications permits Tender Notices to be tendered, to Clearing Members with open Long Positions as of the close of trading on the day on which the Tender Notice is submitted. Tenders Notices will be assigned in accordance with the Corporation's procedures of assigning Tender Notices to the oldest open contract (First In, First Out).
- (2) A Tender Notice shall not be assigned to any Non-Conforming Member which has been suspended for default or insolvency. A Tender 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.

This Section C-1405 replaces Section C-505.

### **Section C-1406**

#### **ASSIGNMENT FILE PROCEDURES**

The following rule shall apply to the compilation of the Assignment File.

- (1) On the sixth Business Day preceding to the first Business Day of the Delivery Month each Clearing Member holding Long Positions in the relevant Series of Futures must enter into the Assignment File in CDCS all the Clearing Member's Long Positions in that Series of Futures in chronological order.
- (2) Prior to the Close of Business on each subsequent Business Day up to and including the next to last Business Day on which Tender Notices may be submitted, each Clearing Member shall access the Assignment File and either make changes to reflect the current chronological order of all Long Positions in the relevant Series of Futures or confirm that the existing Assignment File records are correct.
- (3) Every Clearing Member shall ensure that an Authorized Representative is available by telephone to the Corporation until the Close of Business on every day on which an amendment to the Assignment File can be made.
- (4) It shall be the duty of each Clearing Member to review daily the relevant reports available on CDCS.
- (5) Failure to access the Assignment File and maintain the current chronological order of all the Clearing Member's Long Positions in the relevant Series of Futures on a daily basis or to have an Authorized Representative available by telephone shall be deemed a violation of the procedures of the Corporation and shall be subject to disciplinary action pursuant to the Rules.

## **RULE C-15**

### **SHARE FUTURES**

The Sections of this Rule C-15 are applicable only for Futures settling on a future date where the Underlying Interest is an individual stock, exchange-traded fund or trust unit.

#### **Section C-1501**

##### **DEFINITIONS**

**“Canadian Share Futures”** – A Futures contract that requires the parties to this contract to make or receive delivery of a specified number of Canadian underlying interests at the expiry of the contract at a price agreed upon when the contract was entered into on the Exchange.

**“Canadian Underlying Interest”** – An individual stock, exchange-traded fund or trust unit issued by a Canadian reporting issuer listed on a recognized exchange as defined in Regulation 21-101 respecting Marketplace Operation, as amended from time to time.

**“Delivery”** – Physical delivery made in accordance with the delivery procedure of CDS following the Maturity Date, or on a day as otherwise determined by the Corporation.

**“Final Settlement Price”** – The price of the Underlying Interest as determined by the product specifications of the Bourse de Montréal Inc.

**“Foreign Share Futures”** – A Futures contract that requires the parties to this contract to pay or receive from the Corporation the difference between the Final Settlement Price of the Underlying Interest and the initial Trade Price multiplied by the appropriate Unit of Trading.

**“Last Trading Date”** – The Maturity Date.

**“Maturity Date”** – The Final Settlement Date as defined by the Bourse de Montréal Inc. from time to time.

**“Recognized Exchange”** – A recognized exchange according to the definition in Rule One of Bourse de Montréal Inc. as amended from time to time.

**“Settlement Price”** – The official daily closing price of a Futures, as determined in accordance with Section C-301.

**“Underlying Interest”** – Stocks, exchange-traded funds or trust units meeting the criteria described in this Rule.

**“Unit of Trading”** – 100 shares of the Underlying Interest, unless otherwise designated.

#### **Section C-1502**

##### **APPROVAL OF UNDERLYING INTEREST**

- (1) The stocks, exchange-traded funds or trust units underlying the Futures issued by the Corporation shall be approved based on criteria described in Section C-1503 of the Rules.



### **Section C-1503**

#### **CRITERIA FOR ELIGIBILITY OF SHARE FUTURES**

In considering whether any stock, exchange-traded fund or trust unit should be approved as the Underlying Interest of a Share Futures, the Corporation, in those circumstances where C-1505 does not apply, shall ensure that prior to being approved as an Underlying Interest the stock, exchange-traded fund or trust unit meets all of the following criteria:

- (1) For a Canadian Share Futures, the Canadian Underlying Interest will meet the Options eligibility criteria described in Section B-603 or B-605, as applicable.
- (2) For a Foreign Share Futures, the stock, exchange-traded fund or trust unit:
  - (i) trades on a Recognized Exchange; and
  - (ii) there are derivatives listed on a Recognized Exchange on that Underlying Interest.

### **Section C-1504**

#### **INELIGIBILITY CRITERIA FOR SHARE FUTURES**

No new series of Canadian Share Futures which is already listed may be opened for trading if any one of the conditions described in Section B-604 or B-606, as applicable, with applicable adaptations, occurs with respect to the Underlying Interest

### **Section C-1505**

#### **PROCEDURE FOR ASSESSING THE EFFECT OF STOCK LIST CHANGES ON SHARE FUTURES ELIGIBILITY**

- (1) Acquisition of a Listed Company by a Newly-Established Company

If a newly-established entity has acquired a listed company, the trading record and history of the predecessor entity may be used to test the Share Futures eligibility of the stock of the new entity as provided for in Section C-1503.

- (2) Name Changes

Corporate name changes have no effect on listed issues Share Futures eligibility. All statistics and history prior to the entity name change continue to apply to the Underlying Interest under the new corporate name.

- (3) Substitutional Listings

When a Stock list change which is the result of a merger or acquisition involving the issuance or acquisition of listed shares has occurred, all listed issues connected with the change are reviewed

by the Corporation. No decision to change the Share Futures status of a listed issue will occur until after the offer or transaction is completed. The general process which applies is as follows:

- (a)
  - (i) it is confirmed by the Corporation that each of the predecessor companies is listed on a Recognized Exchange; or
  - (ii) on receipt of the notice of corporate change or following the closing date of a share purchase offer, it is confirmed by the Corporation that at least one predecessor company has Share Futures currently listed on the Bourse de Montréal Inc., and these Share Futures are not at or past the date where no new series may be listed if they are classified as delistable by the Corporation.
- (b) It is confirmed by the Corporation that the resultant company is listed on a Recognized Exchange.

(4) New Shares

If new shares are created for the purpose of completing a merger or acquisition involving the issuance or acquisition of listed shares, the relationship between the old and new shares will determine if the new shares will be treated either as a substitutional, original or supplementary listing by the Corporation. Generally if the new issue is the only common issue of the company, then the new issue will be treated as a substitutional issue. Otherwise the issue will be treated as an original or supplementary issue by the Corporation.

### **Section C-1506**

#### **WITHDRAWAL OF APPROVAL OF UNDERLYING INTEREST**

Whenever the Corporation determines that an Underlying Interest, for any reason, should no longer be approved, the Corporation shall advise the Exchange that the Corporation will no longer accept trades in such Class of Futures (other than closing transactions) or in any additional Series of Futures of the Class of Futures covering that Underlying Interest.

### **Section C-1507**

#### **UNAVAILABILITY OR INACCURACY OF CURRENT VALUE**

- (1) If the Corporation shall determine that the Final Settlement Price for any series of Share Futures is unreported or otherwise unavailable for purposes of calculating the gains and losses, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
  - (a) suspend the Settlement of Gains and Losses. At such times as the Corporation determines that the required Final Settlement Price is available, the Corporation shall fix a new date for Settlement of the Gains and Losses.

- (b) fix the Final Settlement Price in accordance with the best information available as to the correct Final Settlement Price.
- (2) The Final Settlement Price as reported by the Exchange shall be conclusively deemed to be accurate except that where the Corporation determines in its sole discretion that there is a material inaccuracy in the reported Final Settlement Price, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Final Settlement Price to be used for settlement purposes.

Section C-1508 through Section C-1511 inclusive apply to Canadian Share Futures:

### **Section C-1508**

#### **GOOD DELIVERABLE FORM OF STOCKS, EXCHANGE-TRADED FUND OR TRUST UNITS**

A stock, exchange-traded fund or trust unit held at CDS shall be deemed to be in good deliverable form for the purposes hereof only if the delivery of such stock, exchange-traded fund or trust unit would constitute good delivery under the regulations, rules and policies of the Exchange.

### **Section C-1509**

#### **DELIVERY THROUGH THE CENTRAL SECURITIES DEPOSITORY**

- (1) Day of Delivery – Physical delivery of the Underlying Interest as required by this Rule shall be made in accordance with the delivery procedure of CDS following the Maturity Date, or on a day as otherwise determined by the Corporation.

### **Section C-1510**

#### **ASSIGNMENT OF SHARE FUTURES CONTRACTS**

All long Share Futures contract positions will receive delivery in accordance with the Corporation's procedures from accounts with open Short Positions in the Series of Futures involved. The Corporation shall treat the accounts of all Clearing Members equally.

Section C-1511 through C-1513 inclusive apply to Foreign Share Futures.

### **Section C-1511**

#### **SETTLEMENT IN CASH THROUGH THE CORPORATION**

Unless otherwise specified by the Corporation, settlement of positions held following the close of trading on the last day of trading in a Series of Futures shall be made on the first Business Day following the last

day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the short and long Clearing Members. The amount to be paid or received in final settlement of

- (a) each position opened prior to the last trading day is the difference between
  - (i) the Final Settlement Price; and
  - (ii) the Settlement Price of the contract on the business day before the last trading day, multiplied by the Unit of Trading using the current foreign currency rate as specified in the product specifications, and
- (b) each position opened on the last trading day is the difference between
  - (i) the Final Settlement Price; and
  - (ii) the Trade Price of the open contract, multiplied by the Unit of Trading using the current foreign currency rate as specified in the product specifications.

### **Section C-1512**

#### **TENDER NOTICES**

Rule C-5 shall not apply to Foreign Share Futures as they are cash-settled.

### **Section C-1513**

#### **PAYMENT AND RECEIPT OF PAYMENT OF THE TRADE PRICE**

The settlement value of maturing contract will be included with other settlements on the daily Detailed Futures Consolidated Activity Report and Futures Sub-Accounts Consolidated Activity Report.

### **Section C-1514**

#### **ACCELERATION OF EXPIRATION DATE**

When a Share Futures contract, where the Underlying Interest is an equity stock, exchange-traded fund or trust unit, is adjusted pursuant to Rule A-9 – Adjustment In Contract Terms, to require the delivery upon settlement of a fixed amount of Cash, the Maturity Date of the Share Futures contract will ordinarily be accelerated to fall on or shortly after the date on which the conversion of the Underlying Interest to a right to receive Cash occurs.

The Maturity Date of the closest month of the Share Futures contract will remain unchanged. All Share Futures contracts set to expire after this date will have their Maturity Date accelerated to the nearest practical date following the adjustment.

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

## **RULE C-16**

### **2-YEAR CANADA BOND FUTURES (SYMBOL - CGZ)**

The Sections of this Rule C-16 are applicable only to Futures where the Underlying Interest is Government of Canada bonds as defined in Section C-1602, herein referred to as “**2-year Canada Bond Futures**”.

#### **Section C-1601**

##### **DEFINITIONS**

Notwithstanding Section A-102 for the purposes of 2-year Canada Bond Futures the following terms are as defined:

“**Assignment File**” – means the computer file constructed to enable Tenders to be assigned on a first-in-first-out basis pursuant to Section C-1605.

“**Underlying Interest**” – means Government of Canada Bonds, which meet the criteria established in Section C-1602 of this Rule.

#### **Section C-1602**

##### **DELIVERY STANDARDS**

(1)

- (i) The delivery unit for the 2-year Canada Bond Futures expiring before December 2010 shall be Government of Canada Bonds which do not mature and are not callable for at least 1 year six months and no more than 2 years six months from the first calendar day of the Delivery Month, having a coupon rate of 4%, an aggregate face value at maturity of \$200,000, an outstanding face value, net of all potential purchases by the Government of Canada up until the end of the delivery period of the corresponding Delivery Month, of at least \$2.4 billion, are issued and delivered on or before the 15th calendar day preceding the first tender date corresponding to the Delivery Month of the contract, and which have been originally issued at 2-year, 5-year or 10-year Government of Canada bond auctions. All bonds in a delivery unit must be of the same issue.
- (ii) The delivery unit for the December 2010 2-year Canada Bond Futures and for subsequent contract months shall be Government of Canada Bonds which do not mature and are not callable for at least 1 year six months and no more than 2 years six months from the first calendar day of the Delivery Month, having a coupon rate of 6%, an aggregate face value at maturity of \$100,000, an outstanding face value, net of all potential purchases by the Government of Canada up until the end of the delivery period of the corresponding Delivery Month, of at least \$2.4 billion, are issued and delivered on or before the 15th calendar day preceding the first tender date corresponding to the Delivery Month of the contract, and which have been originally issued at 2-year Government of Canada bond auctions. All bonds in a delivery unit must be of the same issue.

(2)

- (i) Substitution - For the 2-year Canada Bond Futures expiring before December 2010, at the option of the Clearing Member holding the Short Position, bonds with coupon rates other than 4% are deliverable, at a discount for bonds with coupons less than 4%, and at a premium for bonds with coupons more than 4%. The amount of premium or discount for each different deliverable issue shall be determined on the basis of yield equivalency with a 4% bond selling at par. The price at which a bond having a particular maturity and coupon rate will yield 4% shall be determined according to bond tables prepared by the Exchange on which the Future trades. The Settlement Amount of such delivery unit shall be \$2,000 multiplied by the product of such price and the Settlement Price of that series of 2-year Canada Bond Futures. Interest accrued on the bonds shall be charged to the Clearing Member taking delivery.
- (ii) Substitution - For the December 2010 2-year Canada Bond Futures and for subsequent contract months, at the option of the Clearing Member holding the Short Position, bonds with coupon rates other than 6% are deliverable, at a discount for bonds with coupons less than 6%, and at a premium for bonds with coupons more than 6%. The amount of premium or discount for each different deliverable issue shall be determined on the basis of yield equivalency with a 6% bond selling at par. The price at which a bond having a particular maturity and coupon rate will yield 6% shall be determined according to bond tables prepared by the Exchange on which the Future trades. The Settlement Amount of such delivery unit shall be \$1,000 multiplied by the product of such price and the Settlement Price of that series of 2-year Canada Bond Futures. Interest accrued on the bonds shall be charged to the Clearing Member taking delivery.

- (3) The Exchange on which the Future trades shall publish a list of deliverable issues prior to each Delivery Month. The time to maturity of a given issue is calculated in complete one-month increments (rounded down to the entire one month period) from the first calendar day of the Delivery Month. New issues of Government of Canada bonds which satisfy the standards of this Section shall be added to the deliverable list as they are issued by the Government of Canada. In the event that, at any regular issue or auction, the Government of Canada reopens an existing issue which has not been originally issued at a 2-year Government of Canada bond auction but would otherwise meet the standards of this Rule, thus rendering the existing issue indistinguishable from the newly issued one, then the older issue is deemed to meet the standards of this Rule and would be deliverable if the reopening of such an existing issue has a total minimum face value amount of \$2.4 billion during the last 12 month period preceding the first tender date of the contract month. The Exchange shall have the right to exclude any new issue from deliverable status or to further limit outstanding issues from deliverable status, whether or not they otherwise satisfy the standards of this Section.
- (4) In the event the Corporation determines that there exists a shortage of deliverable Government of Canada Bond issues it may designate as deliverable on a 2-year Canada Bond Futures such other Government of Canada issues as it deems suitable, and may specify any adjustments in the settlement amount that it considers appropriate and equitable.

### **Section C-1603**

#### **SUBMISSION OF TENDER NOTICES**

- (1) A Clearing Member who holds a Short Position in the currently deliverable series and who wishes to make delivery must submit a Tender Notice to the Corporation no later than the time established by the Corporation on a Business Day from two Business Days preceding the first Business Day of the Delivery Month up to and including the second last Business Day preceding the last Business Day of the Delivery Month indicating the maturity of the Government of Canada bonds being delivered.
- (2) A Clearing Member who, at the time that trading has ceased, holds a Short Position of the currently deliverable series shall submit a Tender Notice to the Corporation indicating the maturity of the Government of Canada Bonds being delivered. Such Notice must be tendered no later than the second Business Day preceding the last Business Day of the Delivery Month.
- (3) The Clearing Member to whom a delivery has been assigned must confirm to the Corporation that delivery has been completed.

This Section C-1603 supplements Section C-502.

### **Section C-1604**

#### **DELIVERY THROUGH THE CLEARING CORPORATION**

- (1) Day of Delivery - Delivery of Government of Canada bonds as required by this Rule shall be made by the Clearing Member on the second Business Day following submission of a Tender Notice, or on a day as otherwise determined by the Corporation. Delivery must be made no later than the last Business Day of the Delivery Month.
- (2) Time of Delivery - Each Clearing Member who is to make delivery of Government of Canada bonds shall do so in accordance with Paragraph A-801(2)(d) and each Clearing Member who is to take delivery of Government of Canada bonds shall do so in accordance with Paragraph A-801(2)(c).
- (3) If delivery of the Underlying Interest by the delivering Clearing Member, or payment therefor by the assigned Clearing Member, is not effected by the Time of Delivery, Section A-804 shall apply.

### **Section C-1605**

#### **ASSIGNMENT OF TENDER NOTICE**

- (1) Tender Notices accepted by the Corporation shall be assigned, at the end of each Business Day on which the Contract Specifications permit Tender Notices to be tendered, to Clearing Members with open Long Positions as of the close of trading on the day on which the Tender Notice is submitted. Tenders Notices will be assigned in accordance with the Corporation's procedures of assigning Tender Notices to the oldest open contract (First In, First Out).



- (2) A Tender Notice shall not be assigned to any Non-Conforming Member which has been suspended for default or insolvency. A Tender 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.

This Section C-1605 replaces Section C-505.

### **Section C-1606**

#### **ASSIGNMENT FILE PROCEDURES**

The following rule shall apply to the compilation of the Assignment File.

- (1) On the sixth Business Day preceding the first Business Day of the Delivery Month each Clearing Member holding Long Positions in the relevant Series of Futures must enter into the Assignment File in CDCS all the Clearing Member's Long Positions in that Series of Futures in chronological order.
- (2) Prior to the Close of Business on each subsequent Business Day up to and including the next to last Business Day on which Tender Notices may be submitted, each Clearing Member shall access the Assignment File and either make changes to reflect the current chronological order of all Long Positions in the relevant Series of Futures or confirm that the existing Assignment File records are correct.
- (3) Every Clearing Member shall ensure that an Authorized Representative is available by telephone to the Corporation until the Close of Business on every day on which an amendment to the Assignment File can be made.
- (4) It shall be the duty of each Clearing Member to review daily the relevant reports available on CDCS.
- (5) Failure to access the Assignment File and maintain the current chronological order of all the Clearing Member's Long Positions in the relevant Series of Futures on a daily basis or to have an Authorized Representative available by telephone shall be deemed a violation of the procedures of the Corporation and shall be subject to disciplinary action pursuant to the Rules.

## **RULE C-17**

### **CORRA FUTURES (SYMBOL – CRA & COA)**

The Sections of this Rule C-17 are applicable only to One-Month CORRA Futures (COA) and Three-Month CORRA Futures (CRA) (the “CORRA Futures”).

#### **Section C-1701**

##### **DEFINITIONS**

Notwithstanding Section A-102, for the purposes of the CORRA Futures contracts, the following terms are as defined:

“**Average daily CORRA**” – COA – The Average daily CORRA is the arithmetic average of daily CORRA values during the contract (settlement) month. It is calculated in accordance with the rules of the Exchange.

“**Compounded daily CORRA**” – CRA – The Compounded daily CORRA is the compounded daily CORRA values during the reference quarter of the contract. It is calculated in accordance with the rules of the Exchange and the reference quarter is determined by the Exchange.

“**CORRA**” – means the Canadian Overnight Repo Rate Average (CORRA) as determined by the appointed CORRA benchmark administrator.

“**CORRA Index**” – the CORRA Index is calculated based on realized CORRA values during the settlement month of the contract (COA) or the reference quarter of the contract (CRA).

- COA – The CORRA Index for COA is 100 minus the Average daily CORRA.

- CRA – The CORRA Index for CRA is 100 minus Compounded daily CORRA.

“**Final Settlement Price**” – The Final Settlement Price shall be determined by the Exchange on which the Futures trade on the First Business Day following the last day of trading. It is equal to the CORRA Index.

“**Multiplier**” – The Multiplier is the value of the tick used to calculate the size of the contract as specified by the Exchange on which the Futures trade.

“**Underlying Interest**” – means:

- COA – the Average daily CORRA.

- CRA – the Compounded daily CORRA.

### **Section C-1702**

#### **SETTLEMENT IN CASH THROUGH THE CORPORATION**

Unless otherwise specified by the Corporation, settlement of positions held following the close of trading on the last day of trading in a Series of Futures shall be on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the short and long Clearing Members. The amount to be paid or received in final settlement of each position opened on or prior to the last day of trading shall be the difference between

- (i) the Final Settlement Price; and
- (ii) the Settlement Price of the contract on the last day of trading,

multiplied by the Multiplier of the contract.

### **Section C-1703**

#### **TENDER NOTICES**

Rule C-5 shall not apply to CORRA Futures as they are cash-settled.

### **Section C-1704**

#### **ADJUSTMENTS**

No adjustments will ordinarily be made in the terms of the CORRA Futures in the event that the CORRA Index is changed. However, if the Corporation shall determine in its sole discretion that any such change causes significant discontinuity in the level of the CORRA Index, the Corporation may adjust the terms of the affected CORRA Futures by taking such action as the Corporation in its sole discretion deems fair to Clearing Members holding Long and Short Positions.

In the event that a governmental agency or body issues an order, ruling, directive or law pertaining to repo transactions and the Corporation determines that a discontinuity in the level of the CORRA Index is caused by such a Government order, it shall take such action as it deems necessary and fair under the circumstances.

### **Section C-1705**

#### **UNAVAILABILITY OR INACCURACY OF CURRENT VALUE**

- (1) If the Corporation shall determine that the Final Settlement Price for any series of CORRA Futures is unreported or otherwise unavailable for purposes of calculating the gains and losses, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
  - (a) Suspend the Settlement of Gains and Losses. At such time as the Corporation determines that the required Final Settlement Price is available, the Corporation shall fix a new date for Settlement of the Gains and Losses.

- (b) Fix the Final Settlement Price in accordance with the best information available as to the correct Final Settlement Price.
- (2) The Final Settlement Price as reported by the Exchange on which the Futures trade shall be conclusively deemed to be accurate except that where the Corporation determines in its sole discretion that there is a material inaccuracy in the reported Final Settlement Price it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Final Settlement Price to be used for settlement purposes.

## RULE C-18

### 30-YEAR CANADA BOND FUTURES (SYMBOL - LGB)

The Sections of this Rule C-18 are applicable only to Futures where the Underlying Interest is Government of Canada bonds as defined in Section C-1802, herein referred to as “**30-year Canada Bond Futures**”. For further clarification, this Rule C-18 replaces Rule C-11 in so far as the Underlying Interest is a 30-year Canada Bond.

#### Section C-1801

##### DEFINITIONS

Notwithstanding Section A-102 for the purposes of 30-year Canada Bond Futures the following terms are as defined:

“**Assignment File**” – means the computer file constructed to enable Tenders to be assigned on a first-in-first-out basis pursuant to Section C-1805.

“**Underlying Interest**” – means Government of Canada Bonds which meet the criteria established in Section C-1802 of this Rule.

#### Section C-1802

##### DELIVERY STANDARDS

(1) For all 30-year Canada Bond Futures

- (a) The delivery unit for 30-Year Canada Bond Futures shall be Government of Canada Bonds which do not mature and are not callable for a minimum of 25 years from the first calendar day of the Delivery Month, having a coupon rate of 6%, an aggregate face value at maturity of \$100,000, an outstanding face value, net of all potential purchases by the Government of Canada up until the end of the delivery period of the corresponding Delivery Month, of at least \$3.5 billion, are issued and delivered on or before the 15th calendar day preceding the first tender date corresponding to the Delivery Month of the contract, and which are originally issued at 30-year auctions.

All bonds in a delivery unit must be of the same issue.

- (b) Substitution at the option of the Clearing Member holding the Short Position, bonds with coupon rates other than 6% are deliverable, at a discount for bonds with coupons less than 6%, and at a premium for bonds with coupons more than 6%. The amount of premium or discount for each different deliverable issue shall be determined on the basis of yield equivalency with a 6% bond selling at par. The price at which a bond having a particular maturity and coupon rate will yield 6% shall be determined according to bond tables prepared by the Exchange on which the Future trades. The Settlement Amount of such delivery unit shall be \$1,000 multiplied by the product of such price and the Settlement Price of that series of 30 year Canada Bond Futures. Interest accrued on the bonds shall be charged to the Clearing Member taking delivery.

- (c) The Exchange on which the Future trades shall publish a list of deliverable issues prior to each Delivery Month. The time to maturity of a given issue is calculated in complete three month increments (rounded down to the nearest quarter) from the first day of the Delivery Month. New issues of Government of Canada bonds which satisfy the standards of this Section shall be added to the deliverable list as they are issued by the Government of Canada. In the event that, at any regular issue or auction, the Government of Canada reopens an existing bond not issued at a 30-year auction that would otherwise meet the standards of this Rule, thus rendering the existing issue indistinguishable from the newly issued one, then the older issue is deemed to meet the standards of this Rule and would be deliverable if the reopening of such an existing issue has a total minimum face value amount of \$3.5 billion during the last 12 month period preceding the first tender date of the contract month. The Exchange shall have the right to exclude any new issue from deliverable status or to further limit outstanding issues from deliverable status, whether or not they otherwise satisfy the standards of this Section.
- (d) In the event the Corporation determines that there exists a shortage of deliverable Government of Canada Bond issues it may designate as deliverable on a 30 year Canada Bond Futures such other Government of Canada issues as it deems suitable, and may specify any adjustments in the settlement amount that it considers appropriate and equitable.

### **Section C-1803**

#### **SUBMISSION OF TENDER NOTICES**

- (1) A Clearing Member who holds a Short Position in the currently deliverable series and who wishes to make delivery must submit a Tender Notice to the Corporation no later than the time established by the Corporation on a Business Day from two Business Days preceding the first Business Day of the Delivery Month up to and including the second last Business Day preceding the last Business Day of the Delivery Month indicating the maturity of the Government of Canada bonds being delivered.
- (2) A Clearing Member who, at the time that trading has ceased, holds a Short Position of the currently deliverable series shall submit a Tender Notice to the Corporation indicating the maturity of the Government of Canada Bonds being delivered. Such Notice must be tendered no later than the second Business Day preceding the last Business Day of the Delivery Month.

This Section C-1803 supplements Section C-503.

### **Section C-1804**

#### **DELIVERY THROUGH THE CENTRAL SECURITIES DEPOSITORY**

- (1) Day of Delivery - Delivery of Government of Canada bonds as required by this Rule shall be made by the Clearing Member on the second Business Day following submission of a Tender Notice, or on a day as otherwise determined by the Corporation. Delivery must be made no later than the last Business Day of the Delivery Month.

- (2) Time of Delivery - Each Clearing Member who is to make delivery of Government of Canada bonds shall do so in accordance with Paragraph A-801(2)(d) and each Clearing Member who is to take delivery of Government of Canada bonds shall do so in accordance with Paragraph A-801(2)(c).
- (3) If delivery of the Underlying Interest by the delivering Clearing Member, or payment therefor by the assigned Clearing Member, is not effected by the Time of Delivery, Section A-804 shall apply.

### **Section C-1805**

#### **ASSIGNMENT OF TENDER NOTICE**

- (1) Tender Notices accepted by the Corporation shall be assigned, at the end of each Business Day on which the Contract Specifications permits Tender Notices to be tendered, to Clearing Members with open Long Positions as of the close of trading on the day on which the Tender Notice is submitted. Tenders Notices will be assigned in accordance with the Corporations procedures of assigning Tender Notices to the oldest open contract (First In, First Out).
- (2) A Tender Notice shall not be assigned to any Non-Conforming Member which has been suspended for default or insolvency. A Tender 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.

This Section C-1805 replaces Section C-505.

### **Section C-1806**

#### **ASSIGNMENT FILE PROCEDURES**

The following rule shall apply to the compilation of the Assignment File.

- (1) On the sixth Business Day preceding the first Business Day of the Delivery Month each Clearing Member holding Long Positions in the relevant Series of Futures must enter into the Assignment File in CDCS all the Clearing Member's Long Positions in that Series of Futures in chronological order.
- (2) Prior to the Close of Business on each subsequent Business Day up to and including the next to last Business Day on which Tender Notices may be submitted, each Clearing Member shall access the Assignment File and either make changes to reflect the current chronological order of all Long Positions in the relevant Series of Futures or confirm that the existing Assignment File records are correct.
- (3) Every Clearing Member shall ensure that an Authorized Representative is available by telephone to the Corporation until the Close of Business on every day on which an amendment to the Assignment File can be made.
- (4) It shall be the duty of each Clearing Member to review daily the relevant reports available on CDCS.



- (5) Failure to access the Assignment File and maintain the current chronological order of all the Clearing Member's Long Positions in the relevant Series of Futures on a daily basis or to have an Authorized Representative available by telephone shall be deemed a violation of the Rules pursuant to Paragraph A-1A04(4)(a) and shall be subject to disciplinary action pursuant to Rule A-4 and Rule A-5.

## **RULE C-19**

### **FUTURES CONTRACTS ON CARBON DIOXIDE EQUIVALENT (CO<sub>2</sub>e) UNITS WITH PHYSICAL SETTLEMENT (SYMBOL – MCX)**

This Rule C-19 is applicable only to Futures Contracts with Physical Settlement where the deliverable Underlying Interest is a specified number of Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units as defined in Section C-1901, herein referred to as “**Futures Contracts on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with Physical Settlement**”.

#### **Section C-1901**

##### **DEFINITIONS**

Notwithstanding Section A-102, for the purposes of Futures Contract on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with Physical Settlement, the following terms are as defined:

“**Alternative Delivery Procedure (ADP)**” – an agreement between the delivering Clearing Member and the assigned Clearing Member to make and take delivery under terms or conditions which differ from the usual delivery terms and conditions prescribed by the futures contract specifications and by the present Rule.

“**Carbon Dioxide Equivalent (CO<sub>2</sub>e)**” – a unit of measure used to allow the comparison between greenhouse gases that have different global warming potentials.

“**Carbon Dioxide Equivalent (CO<sub>2</sub>e) Unit**” – any right, benefit, title or interest recognized by a governmental or legislative authority in Canada, associated partly or in its entirety to a reduction of the emissions of greenhouse gases expressed in carbon dioxide equivalent (CO<sub>2</sub>e).

“**Exchange**” – Bourse de Montréal Inc.

“**Final Settlement Price**” – the price of the Underlying Interest as determined by the product specifications of the Exchange.

“**Underlying Interest**” – the asset which underlies and determines the value of a futures contract. In the case of Futures Contracts on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with Physical Settlement, the Underlying Interest is 100 Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units.

#### **Section C-1902**

##### **DELIVERY STANDARDS**

For Futures Contracts on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with Physical Settlement, the only Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units acceptable for delivery shall be those specified by the Exchange from time to time.

Before a Futures Contract on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with Physical Settlement is listed for trading, the Exchange shall have the right to exclude from the deliverable of such futures contract any

Carbon Dioxide Equivalent (CO<sub>2</sub>e) Unit it deems appropriate to exclude, even if such unit meets all the standards specified by the Exchange.

### **Section C-1903**

#### **SUBMISSION OF TENDER NOTICES**

A Clearing Member who holds a Short Position in the currently deliverable futures contract and who wishes to make delivery must submit a Tender Notice to the Corporation on the last trading day of the futures contract.

A Clearing Member who, at the time that trading has ceased, holds a Short Position of the currently deliverable futures contract shall submit a Tender Notice to the Corporation no later than the time established by the Corporation on such last trading day.

The Clearing Member to whom a delivery has been assigned must confirm to the Corporation that delivery has been completed unless the Clearing Member has chosen to enter into an Alternative Delivery Procedure as described in Section C-1907.

This Section C-1903 supplements Section C-503.

### **Section C-1904**

#### **DELIVERY THROUGH THE CORPORATION**

- (1) Day of Delivery – Delivery of Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units as required by this Rule shall be made by the Clearing Member on the second Business Day following submission of a Tender Notice, or on a day as otherwise determined by the Corporation.
- (2) Time of Delivery – Each Clearing Member who is to make or take delivery of Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units shall do so against or, as the case may be, by payment of certified funds by no later than 2:45 p.m. on the Day of Delivery.
- (3) Membership at Registry – A Clearing Member that intends to clear Futures Contracts on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with Physical Settlement through the facilities of the Corporation, must ensure that at all times it and/or its client is and remains in good standing with the Registry.
- (4) If delivery of the Underlying Interest by the delivering Clearing Member, or payment thereof by the assigned Clearing Member, is not effected by the time provided in Subsection C-1904(2), such Non-Conforming Clearing Member must inform the Corporation of such failure of the Non-Conforming Member no later than 3:00 p.m. on the Day of Delivery. The Non-Conforming Clearing Member shall notify the Corporation of the default of the Non-Conforming Member by telephone, together with written notification sent by facsimile transmission or electronic mail to be provided as soon as possible.
- (5) Final Settlement Price – Each Clearing Member who is to make or take delivery of Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units shall use the Final Settlement Price as determined by the Exchange.

### **Section C-1905**

#### **ASSIGNMENT OF TENDER NOTICE**

- (1) Tender Notices accepted by the Corporation shall be assigned at the end of the last trading day of the futures contract to Clearing Members with open Long Positions as of the close of the last trading day. Such assignment shall be made in accordance with the Corporation random selection procedures.
- (2) No Tender Notice shall be assigned to any Non-Conforming Member which has been suspended for default or insolvency. A Tender 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 C-1906**

#### **SHORTAGE OF DELIVERABLE CARBON DIOXIDE EQUIVALENT (CO<sub>2</sub>E) UNITS**

In the eventuality where the Board of Directors of the Corporation decides that a shortage of deliverable Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units exists or might exist, it shall take all necessary action to correct, prevent or alleviate the situation. The Board of Directors of the Corporation could, for instance:

- (i) Designate as being acceptable for delivery any other type of Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units that had not been previously identified as being acceptable for delivery;
- (ii) Instead of the normal delivery procedures, decide on a cash settlement in accordance with the following procedure:

A Final Settlement Price will be determined by the Exchange on the last day of trading. The final settlement in cash shall be made in accordance with the procedure specified in Section C-2002 on the final settlement date, which shall be the same date as the Day of Delivery described in Subsection C-1904(1), that is the second Business Day following the last day of trading, or on a day as otherwise determined by the Corporation.

The Final Settlement Price as reported by the Exchange shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Final Settlement Price, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Final Settlement Price to be used for settlement purposes.

In the event that the Registry referred to in Section A-102 is not in place at the expiry of a Futures Contract on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with Physical Settlement whose specifications provide for the delivery of the units underlying such futures contract, the contract shall be settled in cash in the manner described in Paragraph ii) above.

Notwithstanding the provisions regarding cash settlement in this Section, the Clearing Member who holds a Short Position in the currently deliverable futures contract and who wishes to make delivery must submit a Tender Notice in accordance with the provisions described in the first and second Paragraphs of Section C-1903.

### **Section C-1907**

#### **ALTERNATIVE DELIVERY PROCEDURE**

Where the delivering Clearing Member and the assigned Clearing Member agree, for a Futures Contract on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with Physical Settlement, to make and take delivery of the Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units under terms or conditions which differ from the terms and conditions prescribed in this Rule, the relevant Clearing Members may agree on an Alternative Delivery Procedure (“ADP”) in the form prescribed by the Corporation.

The Corporation is released from any responsibility towards these Clearing Members and for the Futures Contract on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with Physical Settlement once an Alternative Delivery Procedure agreement and its terms have been confirmed by the two Clearing Members and the Corporation. Clearing Members who agree on an Alternative Delivery Procedure undertake to indemnify the Corporation in respect of any costs, charges and expenses incurred by the Corporation in connection with this contract and such agreement, including, without limitation, any costs, charges and expenses incurred as a result of a failure on the part of a Clearing Member to meet its obligations under an Alternative Delivery Procedure agreement. The Alternative Delivery Procedure agreement must be confirmed by the two Clearing Members and the Corporation no later than 2:45 p.m. on the second Business Day that follows the last day of trading, otherwise the relevant Clearing Members will be considered to have failed to their delivery related obligations under the Rules of the Corporation.

When the Alternative Delivery Procedure agreement has been confirmed by the Corporation, Rule C-5, Delivery of Underlying Interest of Futures, no longer applies to Futures Contracts on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with Physical Settlement.

### **Section C-1908**

#### **FORCE MAJEURE**

Notwithstanding the provisions of Section C-521, Force Majeure or Emergency, in the specific situation where the trading system related to the Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units is no longer scheduled to proceed, is not implemented by any governmental or legislative authority in Canada or is to be discontinued by any governmental or legislative authority in Canada, the Board of Directors of the Corporation shall decide on the cash settlement of the contract at a price that reflects a minimum quality standard established by recognized standards organizations to be determined from time to time by the Exchange.

**RULE C-20**  
**FUTURES CONTRACTS ON CARBON DIOXIDE EQUIVALENT (CO<sub>2</sub>E) UNITS**  
**WITH CASH SETTLEMENT (SYMBOL – XXX)**

This Rule C-20 is applicable only to Futures Contracts with Cash Settlement where the Underlying Interest is a specified number of Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units as defined in Section C-2001, herein referred to as “**Futures Contracts on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with Cash Settlement**”.

**Section C-2001**  
**DEFINITIONS**

Notwithstanding Section A-102, for the purposes of Futures Contracts on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with Cash Settlement, the following terms are as defined:

“**Carbon Dioxide Equivalent (CO<sub>2</sub>e)**” – a unit of measure used to allow the comparison between greenhouse gases that have different global warming potentials.

“**Carbon Dioxide Equivalent (CO<sub>2</sub>e) Unit**” – any right, benefit, title or interest recognized by a governmental or legislative authority in Canada, associated partly or in its entirety to a reduction of the emissions of greenhouse gases expressed in Carbon Dioxide Equivalent (CO<sub>2</sub>e).

“**Exchange**” – Bourse de Montréal Inc.

“**Final Settlement Price**” – the price of the Underlying Interest as determined by the product specifications of the Exchange.

“**Multiplier**” – the value of the tick used to calculate the size of the contract as specified by the Exchange on which the Futures Contracts on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with Cash Settlement trade.

“**Underlying Interest**” – the asset which underlies and determines the value of a futures contract. In the case of Futures Contracts on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with Cash Settlement, the Underlying Interest is 100 Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units.

**Section C-2002**  
**FINAL SETTLEMENT IN CASH THROUGH THE CORPORATION**

Unless otherwise specified by the Corporation, settlement of positions held following the close of trading on the last day of trading in a Series of Futures Contracts shall be made on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each

of the Clearing Members holding Long and Short positions. The amount to be paid or received in final settlement of:

- (a) each position opened prior to the last day of trading is the difference between
  - (i) the Final Settlement Price, and
  - (ii) the Settlement Price of the futures contract on the Business Day before the last day of trading,
 multiplied by the Multiplier of the futures contract; and
- (b) each position opened on the last day of trading is the difference between
  - (i) the Final Settlement Price, and
  - (ii) the Trade Price of the open futures contract
 multiplied by the Multiplier of the futures contract.

### **Section C-2003** **TENDER NOTICES**

Rule C-5 shall not apply to Futures Contracts on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with Cash Settlement as they are cash-settled.

### **Section C-2004** **UNAVAILABILITY OR INACCURACY OF CURRENT VALUE**

- (1) If the Corporation shall determine that the Final Settlement Price for a Futures Contract on Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units with Cash Settlement is unreported or otherwise unavailable for purposes of calculating the Gains and Losses, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
  - (a) Suspend the Settlement of Gains and Losses. At such times as the Corporation determines that the required Final Settlement Price is available, the Corporation shall fix a new date for the Settlement of Gains and Losses.
  - (b) Fix the Final Settlement Price in accordance with the best information available as to the correct Final Settlement Price.
- (2) The Final Settlement Price as reported by the Exchange shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Final Settlement Price, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Final Settlement Price to be used for settlement purposes.



### **Section C-2005**

#### **PAYMENT AND RECEIPT OF PAYMENT OF THE TRADE PRICE**

The settlement value of maturing contracts will be included with other settlements on the daily Detailed Futures Consolidated Activity Report and Futures Sub-Accounts Consolidated Activity Report.

### **Section C-2006**

#### **FORCE MAJEURE OR EMERGENCY**

If settlement or acceptance or any precondition or requirement is prevented by *force majeure* or Emergency, the affected Clearing Member shall immediately notify the Exchange and the Corporation. The Exchange and the Corporation shall take such action as they deem necessary under the circumstances and their decision shall be binding upon all parties to the contract. Without limiting the generality of the foregoing, they may modify the Settlement Time and/or the settlement date; designate alternate or new settlement points or alternate or new procedures in the event of conditions interfering with the normal operations of approved facilities or settlement process; and/or fix a Settlement Price.

In the specific situation where the trading system related to the Carbon Dioxide Equivalent (CO<sub>2</sub>e) Units is no longer scheduled to proceed, is not implemented by any governmental or legislative authority in Canada or is to be discontinued by any governmental or legislative authority in Canada, the Board of Directors of the Corporation shall decide on the cash settlement of the contract at a price that reflects a minimum quality standard established by recognized standards organizations to be determined from time to time by the Exchange.

## **RULE C-21**

### **FUTURES CONTRACTS ON CANADIAN CRUDE OIL WITH CASH SETTLEMENT**

The Sections of this Rule C-21 are applicable only to Futures Contracts on Canadian Crude Oil with Cash Settlement.

#### **Section C-2101**

##### **DEFINITIONS**

Notwithstanding Section A-102, for the purposes of Futures Contracts on Canadian Crude Oil with Cash Settlement, the following terms are as defined:

**“Exchange”** – Bourse de Montréal Inc.

**“Final Settlement Price”** – the price of the Underlying Interest, expressed in U.S. dollars, as determined by the product specifications of the Exchange.

**“Futures”** – a contract to make settlement in cash on a future date of the difference between the Final Settlement Price and the Trade Price multiplied by the appropriate Multiplier pursuant to standardized terms and conditions set forth in these Rules and the regulations, rules and policies of the Exchange.

**“Multiplier”** – the factor used to calculate the size of the contract, as specified by the Exchange, of the Futures Contracts on Canadian Crude Oil with Cash Settlement. The factor is set at 1,000 U.S. barrels.

**“Underlying Interest”** – means the price of one (1) U.S. Barrel of Canadian crude oil, expressed on a differential price basis, as determined by the Exchange.

**“U.S. Barrel”** – means 42 U.S. gallons of 231 cubic inches per gallon measured at 60°F.

#### **Section C-2102**

##### **FINAL SETTLEMENT IN CASH THROUGH THE CORPORATION**

Unless otherwise specified by the Corporation, settlement of positions held following the close of trading on the last day of trading in a Series of Futures Contracts shall be made on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the Clearing Members holding Long and Short positions. The amount to be paid or received in final settlement of:

- (a) each position opened prior to the last day of trading is the difference between
  - (i) the Final Settlement Price, and
  - (ii) the Settlement Price of the futures contract on the Business Day before the last day of trading,multiplied by the Multiplier of the futures contract; and

- (b) each position opened on the last day of trading is the difference between
  - (i) the Final Settlement Price, and
  - (ii) the Trade Price of the open futures contract
 multiplied by the Multiplier of the futures contract.

### **Section C-2103**

#### **TENDER NOTICES**

Rule C-5 shall not apply to Futures Contracts on Canadian Crude Oil with Cash Settlement as they are cash-settled.

### **Section C-2104**

#### **UNAVAILABILITY OR INACCURACY OF CURRENT VALUE**

- (1) If the Corporation shall determine that the Final Settlement Price for a Futures Contract on Canadian Crude Oil with Cash Settlement is unreported or otherwise unavailable for purposes of calculating the Gains and Losses, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
  - (a) Suspend the Settlement of Gains and Losses. At such times as the Corporation determines that the required Final Settlement Price is available, the Corporation shall fix a new date for the Settlement of Gains and Losses.
  - (b) Fix the Final Settlement Price in accordance with the best information available as to the correct Final Settlement Price.
- (2) The Final Settlement Price as reported by the Exchange shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Final Settlement Price, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Final Settlement Price to be used for settlement purposes.

### **Section C-2105**

#### **PAYMENT AND RECEIPT OF PAYMENT OF THE TRADE PRICE**

The settlement value of maturing contracts will be included with other settlements on the daily Futures Consolidated Activity Report.

### **Section C-2106**

#### **FORCE MAJEURE OR EMERGENCY**

If settlement or acceptance or any precondition or requirement is prevented by “*Force Majeure*” or Emergency the affected Clearing Member shall immediately notify the Exchange and the Corporation. If the Exchange and the Corporation decide that a Force Majeure or Emergency is in progress, by their own means or following the reception of a notice to this effect from a Clearing Member, they shall take all necessary actions in the circumstances and their decision shall be binding upon all parties to Futures Contracts on Canadian Crude Oil with Cash Settlement affected by the Force Majeure or Emergency. Without limiting the generality of the foregoing, the Corporation may take one or many of the following measures:

- (a) modify the Settlement Time;
- (b) modify the settlement date;
- (c) designate alternate or new settlement points or alternate or new procedures in the event of conditions interfering with the normal operations of approved facilities or settlement process;
- (d) fix a Settlement Price.

Neither the Exchange nor the Corporation shall be liable for any failure or delay in the performance of the Corporation’s obligations to any Clearing Member if such failure or delay arises out of a Force Majeure or Emergency.

### **Section C-2107**

#### **CURRENCY**

All trading and settlement of Futures Contracts on Canadian Crude Oil with Cash Settlement takes place in United States funds. All margin requirements will be calculated in United States funds and converted to Canadian funds at a rate of exchange determined from time to time by the Corporation. All clearing fees and Margin in relation to Futures Contracts on Canadian Crude Oil with Cash Settlement will be payable in Canadian Funds.

## **RULE C-22**

### **FUTURES ON DIVIDEND INDICES**

The Sections of this Rule C-22 are applicable only to Futures settling on a future date where the Underlying Interest is an Eligible Dividend Index.

#### **Section C-2201**

##### **DEFINITIONS**

Notwithstanding Section A-102, for the purposes of Futures on Dividend indices, the following terms are as defined:

**“Eligible Dividend Index”** – means a dividend index that is the S&P/TSX 60 Dividend Points Index (Annual).

**“Exchange”** – means Bourse de Montréal Inc.

**“Final Settlement Price”** – means the settlement price determined by the Exchange as being the official opening level of the Eligible Dividend Index on the day following the last day of trading, multiplied by the appropriate Multiplier.

**“Futures”** – means an undertaking to make settlement in cash on a future date of the difference between the Final Settlement Price and the Trade Price, multiplied by the appropriate Multiplier, pursuant to the standardized terms and conditions set forth in these Rules and in accordance with the by-laws, rules and policies of the Exchange.

**“Multiplier”** – means the multiplier of a Futures on an Eligible Dividend Index, as specified by the Exchange.

**“Underlying Interest”** – means the Eligible Dividend Index underlying of the Futures.

**“Underlying Security”** – means any of the securities included in an Eligible Dividend Index underlying a class of Futures on an Eligible Dividend Index.

#### **Section C-2202**

##### **FINAL SETTLEMENT IN CASH THROUGH THE CORPORATION**

Unless otherwise specified by the Corporation, settlement of positions held in Series of Futures following the close of trading on the last day of trading shall be made on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the short and long Clearing Members. The amount to be paid or received in final settlement of:

- (a) each position opened prior to the last day of trading is the difference between:
  - (i) the Final Settlement Price, and

- (ii) the Settlement Price of the contract on the Business Day before the last day of trading,  
multiplied by the appropriate Multiplier; and
- (b) each position opened on the last day of trading is the difference between
  - (i) the Final Settlement Price, and
  - (ii) the Trade Price of the open contract  
multiplied by the appropriate Multiplier.

### **Section C-2203 TENDER NOTICES**

Rule C-5 shall not apply to Futures on Eligible Dividend Indices as they are Cash settled.

### **Section C-2204 ADJUSTMENTS**

No adjustments will ordinarily be made in the terms of Eligible Dividend Index Futures in the event that underlying securities are added to or deleted from an Eligible Dividend Index or when the relative representation of one or more underlying securities underlying an Eligible Dividend Index is changed. However, the Corporation may, at the request of the Exchange, adjust the terms of the affected Dividend Futures.

### **Section C-2205 UNAVAILABILITY OR INACCURACY OF CURRENT VALUE**

- (1) If the Corporation determines that the Final Settlement Price for an Eligible Dividend Index underlying any series of Eligible Dividend Index Futures is unreported or otherwise unavailable for purposes of calculating the Gains and Losses, then, in addition to any other actions that the Corporation may be entitled to take under these Rules, the Corporation may do any or all of the following:
  - (a) Suspend the Settlement of Gains and Losses. At such times as the Corporation determines that the required Final Settlement Price is available, the Corporation shall fix a new date for Settlement of the Gains and Losses.
  - (b) Fix the Final Settlement Price in accordance with the best information available as to the correct Final Settlement Price.
- (2) The Final Settlement Price as reported by the Exchange shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Final Settlement Price, it may take such action as it determines in its discretion to be



fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Final Settlement Price to be used for settlements.

#### **Section C-2206**

##### **PAYMENT AND RECEIPT OF PAYMENT OF THE TRADE PRICE**

The settlement value of the maturing contract shall be included with other settlement amounts on the daily Detailed Futures Consolidated Activity Report and the Futures Sub-Accounts Consolidated Activity Report.



**RULE C-23**  
**FUTURES CONTRACTS ON EQUITY INDICES WITH CASH SETTLEMENT IN US DOLLARS**

The Sections of this Rule C-23 are applicable only to Futures contracts on equity indices with Cash settlement in US Dollars.

**Section C-2301**  
**DEFINITIONS**

Notwithstanding Section A-102, for the purposes of Futures contracts on equity indices with Cash settlement in US Dollars, the following terms are as defined:

“**Cash**” – money in the lawful currency of the United States.

“**Eligible Equity Index**” – the FTSE Emerging Markets Index.

“**Exchange**” – Bourse de Montréal Inc.

“**Final Settlement Price**” – the price determined by the Exchange as being the official closing price of the equity index, expressed in U.S. dollars, on the last day of trading, multiplied by the Multiplier.

“**Multiplier**” – the factor used to calculate the size of the Futures contract as specified by the Exchange.

“**Underlying Interest**” – the Eligible Equity Index which is the subject of the Futures contract.

**Section C-2302**  
**FINAL SETTLEMENT IN CASH THROUGH THE CORPORATION**

Unless otherwise specified by the Corporation, settlement of positions held following the close of trading on the last day of trading in a Series of Futures contracts shall be made on the first Business Day following the last day of trading. Settlement shall be made by an exchange of cash between the Corporation and each of the Clearing Members holding Long Positions and Short Positions. The amount to be paid or received in final settlement of:

- (a) each position opened prior to the last day of trading is the difference between:
  - (i) the Final Settlement Price, and
  - (ii) the Settlement Price of the Futures contract on the Business Day before the last day of trading,multiplied by the Multiplier of the Futures contract; and

- (b) each position opened on the last day of trading is the difference between
  - (i) the Final Settlement Price, and
  - (ii) the Trade Price of the open Futures contract
 multiplied by the Multiplier of the Futures contract.

### **Section C-2303 TENDER NOTICES**

Rule C-5 shall not apply to Futures contracts on equity indices with Cash settlement in US Dollars as they are Cash settled.

### **Section C-2304 ADJUSTMENTS**

No adjustments will ordinarily be made in the terms of Futures contracts on equity indices with Cash settlement in US Dollars in the event that securities composing the Eligible Equity Index are added to or deleted or when their relative weight is changed. However, the Corporation may, at the request of the Exchange, adjust the terms of the affected Futures contracts on equity indices with Cash settlement in US Dollars.

### **Section C-2305 UNAVAILABILITY OR INACCURACY OF CURRENT VALUE**

- (1) If the Corporation shall determine that the Final Settlement Price for an equity index underlying any series of Futures contracts on equity indices with cash settlement in US Dollars is unreported or otherwise unavailable for purposes of calculating the gains and losses, then, in addition to any other actions that the Corporation may be entitled to take under these Rules, the Corporation may do any or all of the following:
  - (a) suspend the Settlement of Gains and Losses. At such times as the Corporation determines that the required Final Settlement Price is available, the Corporation shall fix a new date for Settlement of the Gains and Losses.
  - (b) fix the Final Settlement Price in accordance with the best information available as to the correct Final Settlement Price.
- (2) The Final Settlement Price as reported by the Exchange shall be conclusively deemed to be accurate except that where the Corporation determines in its discretion that there is a material inaccuracy in the reported Final Settlement Price, it may take such action as it determines in its discretion to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may amend the Final Settlement Price to be used for settlement purposes.

### Section C-2306

#### PAYMENT AND RECEIPT OF PAYMENT OF THE TRADE PRICE

The settlement value of maturing contracts will be included with other settlements on the daily Futures Consolidated Activity Report.

### Section C-2307

#### FORCE MAJEURE OR EMERGENCY

If settlement or acceptance or any precondition or requirement is prevented by *force majeure* or Emergency, the affected Clearing Member shall immediately notify the Exchange and the Corporation. If the Exchange and the Corporation decide that a *force majeure* or Emergency is in progress, by their own means or following the reception of a notice to this effect from a Clearing Member, they shall take all necessary actions in the circumstances and their decision shall be binding upon all parties to Futures contracts on equity indices with Cash settlement in US Dollars affected by the *force majeure* or Emergency. Without limiting the generality of the foregoing, the Corporation may take one or many of the following measures:

- (a) modify the Settlement Time;
- (b) modify the settlement date;
- (c) designate alternate or new settlement points or alternate or new procedures in the event of conditions interfering with the normal operations of approved facilities or settlement process;
- (d) fix a Settlement Price.

Neither the Exchange nor the Corporation shall be liable for any failure or delay in the performance of the Corporation's obligations to any Clearing Member if such failure or delay arises out of a *force majeure* or Emergency.

### Section C-2308

#### CURRENCY

All trading, settlement and variation margin requirements related to the Futures contracts on equity indices with Cash settlement in US Dollars takes place in United States funds. Initial margin requirements will be converted to Canadian funds at the Bloomberg FX Fixing (BFX) at 12:30 p.m. New-York time fix, . All clearing fees in relation to Futures contracts on equity indices with Cash settlement in US Dollars will be payable in Canadian funds.

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## **PART D – OVER-THE-COUNTER INSTRUMENTS (“OTCI”)**

### **RULE D-1**

#### **CLEARING OF OVER-THE-COUNTER INSTRUMENTS (“OTCI”)**

The provisions of this Part D shall apply only to OTCI which are cleared by the Corporation, pursuant to these Rules and to those Clearing Members who are required to make a base deposit to the Clearing Fund for OTCI clearing as set out in Paragraph A-601(2)(c).

#### **Section D-101**

##### **RESPONSIBILITY OF CLEARING MEMBERS FOR OTCI**

Every Clearing Member shall be responsible for the clearance of its own OTCI transactions and of the OTCI transactions of each Client which has agreed with the Clearing Member that its transactions will be cleared by such Clearing Member. A copy of such clearing agreement shall be provided to the Corporation upon its request.

#### **Section D-102**

##### **MAINTENANCE OF ACCOUNTS**

- (1) Every Clearing Member shall establish and maintain with the Corporation the following accounts:
  - (a) One or more Firm Account(s) which shall be confined to Firm Transactions of such Clearing Member; and
  - (b) One or more Client Account(s), which shall be confined to the Transactions of its Clients, if the Clearing Member conducts business with the public in OTCI.

#### **Section D-103**

##### **AGREEMENT REGARDING ACCOUNTS**

Every Clearing Member shall agree that:

- (1) In respect of any Firm Account, the Corporation shall have a first priority security interest and hypothec on all Long Positions and Short Positions, Securities, Underlying Interest, Margin, and other Margin Deposits in respect of such account as security for all of the Clearing Member's obligations to the Corporation.
- (2) Notwithstanding Subsection A-701(3), in respect of any Client Account, the Corporation shall have a first priority security interest and hypothec on all Long Positions and Short Positions, Securities, Underlying Interest, Margin, and other Margin Deposits in respect of such account as security for the Clearing Member's obligations to the Corporation in respect of such account, except that the Corporation shall not have a security interest and hypothec on the Long Positions in OTCI Transactions that are Options in a Client Account.
- (3) The Corporation may, if it deems it appropriate to do so, close out the positions in such accounts and apply the proceeds thereof to the obligations of the Clearing Member to the Corporation, at any time, without prior notice to the Clearing Member, except that the proceeds of closing out positions

in any Client Account shall only be applied to obligations of the Clearing Member to the Corporation with respect to such Client Account.

- (4) Each Clearing Member is responsible for all obligations owed to the Corporation in respect of every account opened by or on behalf of such Clearing Member.
- (5) Amounts standing to the credit of a Clearing Member's accounts will be applied by the Corporation towards the payment of any sum due by a Clearing Member to the Corporation, subject to Section A-704(2).

## **Section D-104**

### **ACCEPTANCE CRITERIA**

Acceptance Criteria reflect the acceptance parameters for an OTCI transaction to be cleared by the Corporation. More details concerning these Acceptance Criteria can be found in the Risk Manual (Annex A of the Operations Manual).

- (1) With respect to the transaction:
  - (a) that the Underlying Interest of the OTCI is one of the Acceptable Underlying Interests;
  - (b) that the OTCI is one of the Acceptable Instrument Types;
  - (c) when a transaction originates from a marketplace, that the latter is an Acceptable Marketplace;
  - (d) that the Notional Quantity of the OTCI transaction respects the thresholds as defined by the Corporation;
  - (e) that the counterparties involved in the original OTCI transaction are either Clearing Members in good standing, or are clients of such Clearing Members.
- (2) That such Clearing Member:
  - (a) is not considered Non-Conforming by the Corporation, as defined in Section A-1A04;
  - (b) that the transaction will not have the effect of the Clearing Member or client exceeding their respective Risk Limits, as determined by the Corporation;
  - (c) that the Clearing Members or their clients continue to be in good standing with the relevant Market Centres.
  - (d) and specifically in the case of OTC derivatives based on any of the S&P/TSX and S&P/TSX Venture indices, the Clearing Member must execute and remain party to an index license agreement with S&P DOW JONES INDICES LLS.
- (3) Exemptions: A Clearing Member may request an exemption from the risk limits prescribed in this article. If the Corporation rejects the exemption request, it will provide reasons for such rejection to the Clearing Member within a reasonable time delay.

For the purpose of the Acceptance Criteria in Paragraph (1) (a) above, with respect to OTCI transactions for which the Underlying Interest is a Security, the Acceptable Underlying Interest contemplated and the

Unit of Trading of the Acceptable Underlying Interest shall be approved by the Board or by the Corporation in accordance with the provisions of Rule B-6. The Board may withdraw an Acceptable Underlying Interest that it had previously approved, if it deems, for any reason, that such Underlying Interest shall no longer be approved. The Securities contemplated for OTCI that are options shall be approved by applying the definitions and criteria identified in Sections B-6 of the Rules. However, in exceptional circumstances and for the purpose of maintaining a fair and orderly market or for the protection of investors, the Corporation may accept to clear OTCI that are options on Underlying Interest that comply with Subsection B-604(2) and Subsection B-607(3).

## **Section D-105**

### **NOVATION**

Through novation, the Corporation acts as central counterparty between each Clearing Member.

All OTCI transactions that are submitted to the Corporation are registered in the name of the Clearing Member. Upon Acceptance of the Transaction, novation occurs and the initial Transaction is replaced by two different transactions between the Corporation and each Clearing Member involved in the Transaction.

Each Clearing Member looks to the Corporation for the performance of the obligations under a Transaction and not to another Clearing Member. The Corporation shall be obligated to the Clearing Member in accordance with the provisions of these Rules. Furthermore, each client of a Clearing Member looks solely to the Clearing Member for performance of the obligations and not to the Corporation.

## **Section D-106**

### **OBLIGATIONS OF THE CORPORATION**

Acceptance by the Corporation of an OTCI shall, subject to the fulfilment of the conditions precedent set forth in Section D-104, be deemed to have occurred following the issuance by the Corporation of the relevant Trade Confirmation.

In the event that an OTCI transaction does not meet the Acceptance Criteria as set forth in Section D-104, the Corporation will not register the transaction and will provide reasons for such rejection to all relevant parties within a reasonable time delay.

Notwithstanding the foregoing, the Corporation may reject an OTCI submitted for clearing by a Non-Conforming Member.

## **Section D-107**

### **OBLIGATIONS OF THE CLEARING MEMBER**

- (1) The Clearing Member responsible for an OTCI transaction requiring an up-front payment shall be obligated to pay to the Corporation the amount of said payment agreed upon in such OTCI transaction. Such payment shall be made as set forth in these Rules not later than the Settlement Time for such OTCI transaction.
- (2) Between the time of the issuance of the Trade Confirmation and the Settlement Time, the Corporation reserves the right to require a Margin Deposit from the purchasing Clearing Member for the amount of the up-front payment, or any other amount which it deems acceptable considering prevailing market conditions.



## **Section D-108**

### **TRANSACTION REPORTING**

- (1) The acceptance of every OTCI transaction by the Corporation as provided in Section D-104 shall be subject to the condition that the Acceptable Marketplace on which such OTCI transaction occurred, or the parties involved in such transaction, have provided the Corporation with the following information:
  - (a) the identity of the purchasing Clearing Member and the writing Clearing Member;
  - (b) The Accounts where said transaction will be registered; and
  - (c) The details of the transaction corresponding to the Instrument Specifications in Sections D-407 or D-508 of these Rules.
- (2) The Corporation reserves the right to specify the format of the transaction details as well as the medium through which they are communicated to the Corporation.
- (3) The Corporation shall have no obligation for any loss resulting from the untimely submission by an Acceptable Marketplace, or the parties to the transaction, to the Corporation of the information described in Subsection D-108(1).
- (4) For the purpose of OTCI transactions that are Options, the Corporation is not the issuer of those Options.

## **Section D-109**

### **POSITION MANAGEMENT**

- (1) A Short Position or a Long Position in OTCI transactions will be created upon the Corporation's acceptance of such OTCI transaction and the resulting Open Positions will be managed in accordance with the Rules.
- (2) For OTCI transactions that are Options of the same Series of Options, the Corporation will maintain and report the Clearing Member's net position, keeping in consideration the following:
  - (a) The Short Position or Long Position shall be reduced by the number of Options of such Series of Options for which the Clearing Member thereafter files an Exercise Notice with the Corporation in such account;
  - (b) The Short Position or Long Position shall be eliminated at the Expiration Time for such Series of Options;
  - (c) The Short Position or Long Position shall be increased by the number of Options of such Series of Options transferred to such account, with the consent of the Clearing Member and the Corporation, from another account of the Clearing Member or from another Clearing Member;
  - (d) The Short Position or Long Position shall be reduced by the number of Options of such Series of Options transferred from such account, with the consent of the Clearing Member and the Corporation, to another account of the Clearing Member or to another Clearing Member;

- (e) The number or the terms of the Options in the Short Position or Long Position may be adjusted from time to time in accordance with Rule A-9.

### **Section D-110**

#### **LIMITATION OF LIABILITY**

For OTCI transactions where there is a Guaranteeing Delivery Agent, the Corporation shall not be responsible for the performance of the obligations related to the OTCI transaction with regard to:

- (a) Delivery of the Underlying Interest;
- (b) Any replacement cost incurred during the delivery period which is due to the non-delivery of the seller specified in the transaction.

### **Section D-111**

#### **GENERAL RIGHTS AND OBLIGATIONS OF CLEARING MEMBERS FOR OTCI**

If not otherwise mentioned in these Rules, the rights and obligations of the parties to an OTCI transaction shall be determined in accordance with the practices of the Acceptable Marketplace on which the transaction was concluded.

## **RULE D-2 MARKING-TO-MARKET**

### **Section D-201 REFERENCE PRICES AND FORWARD CURVES**

The Corporation will determine the Reference Price of each Underlying Interest for each business day. The Corporation reserves the right to use a variety of data sources, including but not limited to, market participants, price reporting agencies and brokers. These individual Reference Prices will be combined to form a Forward Curve for each Underlying Interest. Forward Prices will be extrapolated from the Forward Curve and will be used in the daily mark-to-market and margining processes. The Corporation reserves the right to alter its methodology for Forward Curve construction from time to time.

### **Section D-202 MARK-TO-MARKET VALUATION**

The unrealized profit or loss on an OTCI transaction on any given Business Day shall be the net present value of all future cash flows.

The unrealized profit or loss on an OTCI transaction which is an Option on any given Business Day shall be determined by applying standard pricing methodologies appropriate for the Option.

## **RULE D-3**

### **PHYSICAL DELIVERY OF UNDERLYING INTEREST ON OVER-THE-COUNTER INSTRUMENTS**

The Sections of this Rule D-3 shall only apply to physically delivered OTCI, excluding Fixed Income Transactions.

#### **Section D-301**

##### **DEFINITIONS**

Notwithstanding Section A-102 for the purposes of physical delivery of Underlying Interest stemming from OTCI transactions (other than Fixed Income Transactions) the following terms shall have the following meanings respectively:

**“Security Funds”** – means any additional deposit(s) by a Clearing Member required by the Corporation to be placed with the Corporation to ensure performance of a Clearing Member’s obligations and shall be in the same form of deposits accepted by the Corporation pursuant to Section A-608.

**“Time of Delivery”** – means the time by which a Clearing Member must make delivery of, or accept delivery of and make payment in respect of, an Underlying Interest without being considered to have failed in its obligations under these Rules.

#### **Section D-302**

##### **DELIVERY THROUGH THE CORPORATION**

Unless otherwise specified by the Corporation, delivery of the Underlying Interest and payment thereof shall be made through the Corporation pursuant to the forms and procedures prescribed by it, having regard to the OTCI specifications referred to in Rule D-4 as well as of the practices of the regional market where the transaction was concluded or with the operating policies and procedures of the Corporation then in effect.

#### **Section D-303**

##### **DELIVERY PROCESS**

In all cases, the Corporation will generate Net Delivery Requirements arising from positions in OTCI transactions up to and including the next business day transactions held by Clearing Members and their respective clients. These Net Delivery Requirements are to be provided to the Delivery Agent responsible for dispatching the Underlying Interest to the transacting parties in the form specified by the aforementioned Delivery Agent.

- (1) In the presence of a Guaranteeing Delivery Agent, the Corporation shall be exclusively responsible for the dissemination of Net Delivery Requirements to the Guaranteeing Delivery Agent and will bear no responsibility for the replacement of the Underlying Interest in the event that the seller fails to perform on the delivery obligation as specified under the terms of the OTCI transactions. The Corporation will, however, bear the responsibility of guaranteeing the Settlement Amounts derived from the delivery process.
- (2) For Underlying Interests which are not delivered via a Guaranteeing Delivery Agent, the Corporation is exclusively responsible for the dissemination of the Net Delivery Requirements to

the Delivery Agent, the replacement of the Underlying Interest in the event that the seller fails to perform on the delivery obligation as well as guaranteeing final settlement under the terms of the OTCI transaction.

### **Section D-304**

#### **FAILURE TO DELIVER OR TO ACCEPT DELIVERY**

The consequences of a failure to deliver (a “**Failed Delivery**”) or to accept delivery on the part of a Clearing Member or its respective client will depend on the convention of the Market Centre applicable to the OTCI.

- (1) Market Centre serviced by a Guaranteeing Delivery Agent:

In the event of non-delivery and/or non-acceptance of delivery by the Clearing Member or its client, the Clearing Member shall not be considered Non-Conforming by the Corporation. If the Clearing Member subsequently fails to settle with the Guaranteeing Delivery Agent or fails to remedy its client’s failure to settle with the Guaranteeing Delivery Agent, the Clearing Member will be considered Non-Conforming by the Corporation. The Corporation may take or cause, authorize or require to be taken whatever steps it may deem necessary to effect payment to or otherwise settle with, the receiving and/or delivering Clearing Member.

- (2) Market Centre not serviced by a Guaranteeing Delivery Agent:

If a Clearing Member or its client who is required to make delivery under Section D-303 fails to complete such delivery by the time required for delivery in these Rules, the Clearing Member will be considered a Non-Conforming Member. The Corporation may take or cause, authorize or require to be taken whatever steps it may deem necessary to effect delivery to or otherwise settle with, the receiving Clearing Member. Without limiting the generality of the foregoing, the Corporation may acquire and deliver the Underlying Interest to the receiving Clearing Member, reimburse or pay to the receiving Clearing Member any additional financial costs incurred as a result of the receiving Clearing Member acquiring the Underlying Interest on the open market, enter into an agreement with the receiving Clearing Member and the delivering Non-Conforming Member relating to the Failed Delivery, and/or take such other action as the Corporation may, in its absolute discretion, deem appropriate or necessary in order to ensure that a Non-Conforming Member’s obligations are fulfilled. In the event the cost of effecting delivery to, or otherwise settling with, the receiving Clearing Member exceeds the Settlement Amount at which the delivery was to be made, the Non-Conforming Member shall be liable for and shall promptly pay to the Corporation or the receiving Clearing Member as the case may be, the amount of such difference.

### **Section D-305**

#### **PENALTIES AND RESTRICTIONS**

- (1) As described in Rule A-5, the Board shall set by resolution, from time to time, the penalties payable in the event that a Clearing Member fails to make delivery or fails to accept delivery and make payment when required to do so in accordance with these Rules; provided, however, that the penalty for any single failure shall not exceed \$250,000. The amount of these penalties shall be in addition to any other sanctions that may be imposed by the Corporation under the Rules in respect of such a default. If a Clearing Member fails to make delivery or accept delivery and make payment, as required under these Rules, such penalty shall be assessed against it commencing as of the Time of Delivery and continuing until the Non-Conforming Member’s obligations to the Corporation are fulfilled or the Non-Conforming Member is suspended, whichever is the sooner.

- (2) Where at the Time of Delivery a delivering Clearing Member fails to make delivery or a receiving Clearing Member fails to accept delivery and make payment and becomes a Non-Conforming Member the Non-Conforming Member's clearing activities shall immediately be restricted to closing transactions as defined in these Rules, unless the Corporation determines that it is not necessary to impose such restriction, in whole or in part. This restriction shall continue until the Non-Conforming Member deposits Security Funds with the Corporation in accordance with Sections D-307 and D-308, or, if such funds are not deposited, until otherwise determined by the Chairperson of the Board and any two directors. Nothing in this Subsection D-305(2) shall prevent the Corporation from immediately suspending a Non-Conforming Member.

### **Section D-306**

#### **NOTIFICATION OF FAILURE TO EFFECT DELIVERY/EFFECT PAYMENT**

The Corporation shall report a Non-Conforming Member, and all circumstances surrounding the transaction that the Corporation deems relevant, to any appropriate self-regulatory agency or regulatory agency, and to any other Entity considered appropriate or necessary by the Corporation. Such notice may include, but is not restricted to, the following information:

the identities of the delivering Clearing Member and the receiving Clearing Member;

- (a) the notional value of the transaction;
- (b) the Underlying Interest to be delivered;
- (c) the settlement amount; and
- (d) any other information considered appropriate or relevant by the Corporation.

### **Section D-307**

#### **DEPOSIT OF SECURITY FUNDS**

In the event where the failure of delivery originates from an OTCI transaction applying to a Market Centre not served by a Guaranteeing Delivery Agent, the following shall apply:

- (1) Where a Non-Conforming Member has failed to accept the delivery of an Underlying Interest and make payment thereof, it must deliver to the Corporation, within one hour after the Time of Delivery, Security Funds equal to the settlement value, or, in the absolute discretion of the Corporation, in an amount equal to the difference between the liquidating value of the Underlying Interest and the settlement value, or such other amount as the Corporation may determine. Upon such delivery, the calculation of penalties and implementation of restrictions, as provided for in Section D-305, shall end. The deposit of the Security Funds with the Corporation, after the required delivery time, does not discharge any obligation of such Non-Conforming Member to the Corporation including the payment of any penalties or payment of costs incurred by the Corporation in connection with the Non-Conforming Member's default, and does not preclude the suspension of such Non-Conforming Member pursuant to Section A-1A05, or the assessment of additional sanctions under Rule A-4 and Rule A-5.
- (2) Subject to Subsection A-701(3), the Security Funds deposited by a Non-Conforming Member shall be used, together with other Margin Deposits of the Non-Conforming Member, by the Corporation to effect delivery of or make payment in respect of the Underlying Interest, or otherwise meet the

Corporation's obligations in respect of the transaction, or for any of the other purposes set forth in Subsection A-701(2).

- (3) Where the Corporation has effected delivery of or made payment for the Underlying Interest, or otherwise settled the transaction, and the cost of so doing exceeds the Security Funds (if any) deposited under Subsection D-307(2), and the Non-Conforming Member's Margin or Clearing Fund deposits, the Non-Conforming Member shall be liable to and shall promptly pay the Corporation the amount of the excess, in addition to any penalties and other sanctions that may be assessed, and the Corporation's reasonable expenses, including legal fees.
- (4) Where the Corporation has effected delivery of or made payment for the Underlying Interest, or otherwise settled the transaction, and the cost of so doing is less than the Security Funds (if any) deposited under Subsection D-307(2), any excess, less all assessed penalties and reasonable expenses, including legal fees, incurred by the Corporation, will be promptly returned to the Non-Conforming Member.

### **Section D-308**

#### **OTHER POWERS OF THE CORPORATION**

Notwithstanding the foregoing, the Corporation shall have the power to require a Non-Conforming Member to deposit such other funds or Security as the Corporation may, in its discretion, determine is necessary or advisable given the nature and value of the Underlying Interest and all of the circumstances of the failed OTCI transaction. A Non-Conforming Member shall cooperate fully with the Corporation in respect of the failed OTCI transaction and shall promptly provide the Corporation with such information relating thereto and to the Non-Conforming Member, as the Corporation may request.

### **Section D-309**

#### **SUSPENSION AND OTHER DISCIPLINARY ACTION**

Notwithstanding any penalties or restrictions imposed on the Non-Conforming Member pursuant to Section D-305, the Corporation may suspend or impose the sanctions provided for in Section A-1A04 and Rules A-4 and A-5 on a Non-Conforming Member.

### **Section D-310**

#### **FORCE MAJEURE OR EMERGENCY**

If delivery, delivery acceptance, settlement, or any precondition or requirement of these is prevented by *force majeure* or an Emergency of a Delivery Agent, Market Centre or a Central Securities Depository, the affected Clearing Member shall immediately notify the Corporation. The Corporation shall take such action as it deems necessary under the circumstances and its decision shall be binding upon all parties to the OTCI transaction. Without limiting the generality of the foregoing, the Corporation may modify the Settlement Time and/or the Settlement Date; designate alternate or new Market Centres; designate alternate or new procedures in the event of conditions interfering with the normal operations of a Delivery Agent or delivery and settlement process; and/or fix a Reference Index Price(s) as such term is defined in D-4 and D-5 below.



## RULE D-4

### PHYSICALLY SETTLED OVER-THE-COUNTER INSTRUMENTS

The Sections of this Rule D-4 are applicable only to OTCI settling on a future date where the Underlying Interest is physically deliverable, excluding Fixed Income Transactions.

#### Section D-401

##### DEFINITIONS

Notwithstanding Section A-102, for the purposes of OTCI transactions, the following terms are as defined:

**“Baseload”** – means the Profile of electricity to be delivered over the period of hour-ending 01 through hour-ending 24 for Sunday through to Monday inclusive.

**“Expiry Date”** – means the Business Day on which the OTCI expires.

**“Fixed Price”** – means the contract price specified in the OTCI transaction. However, for OTCI transactions which are Options, the Fixed Price is sometimes referred to as the Exercise Price.

**“Forward Instrument”** – means an OTCI in which two contracting parties, a buyer and a seller, agree to exchange a fixed quantity of the Underlying Interest at a set time in the future, for a set Fixed Price.

**“Index Instrument”** – means an OTCI in which two contracting parties, a buyer and a seller, agree to exchange a fixed quantity of the Underlying Interest at a set time in the future for the then prevailing Reference Index price plus or minus a fixed basis.

**“Instrument Type”** – means the attribute of the OTCI which describes the time period over which delivery occurs for the Underlying Interest as specified under the terms of the OTCI.

**“MWh”** – means mega-watt hour.

**“NERC”** – means North American Electric Reliability Council.

**“On-Peak”** – means the Profile of electricity to be delivered over the period of hour-ending 08 through hour-ending 23 for Monday through to Saturday inclusive.

**“Off-Peak”** – refers to the Profile of electricity to be delivered over the period of hour-ending 01 through hour-ending 07 plus hour-ending 24 between Monday to Saturday inclusive plus hour-ending 01 through hour-ending 24 on Sundays as well as any other days classified as Off-Peak in accordance with the standard NERC operating calendar.

**“Profile”** – means the Commodity sub-type or grade specified as to be delivered under the terms of the OTCI.

**“Reference Index”** – means the index specified under the terms of an OTCI used to measure the value of a related Underlying Interest at a moment in time specified under the terms of the OTCI.

**“Reference Index Price”** – means the value of the Reference Index determined by the Corporation at the time of a specific Reset.

**“Reset Frequency”** – means the elapsed time interval between successive resets of a Reference Index.

**“Settlement Date”** – unless otherwise specified, means the day a payment is made under the terms of the OTCI. This day shall be determined by the Corporation and will depend on the Underlying Interest, the Settlement Type and the Settlement Rule of the OTCI as well as the practices of the relevant Acceptable Marketplace.

**“Settlement Period”** – unless otherwise specified, means the period from the 1<sup>st</sup> calendar day until the last calendar day of every month.

**“Settlement Rule”** – means either the current month (CM) or the following month (FM), as outlined in the OTCI specifications.

**“Settlement Type”** – means physically settled.

**“Spread”** – means the Fixed Price to be added to or subtracted from the floating leg of an OTCI transaction.

**“Unit of Measure”** – means the standard volumetric measurement quantity related to a particular Commodity.

**“Unit of Trading”** – means 100 shares of the Underlying Interest or units of the exchange-traded unless otherwise indicated.

## **Section D-402**

### **OVER-THE-COUNTER INSTRUMENTS (OTCI) ACCEPTABLE FOR CLEARING WITH THE CORPORATION**

The Corporation shall, on a quarterly basis, issue a list of parameters defining the OTCI transactions that are acceptable for clearing with the Corporation.

## **Section D-403**

### **FINAL SETTLEMENT THROUGH THE CORPORATION**

#### **(1) Physically-Settled OTCI where the Underlying Interest is a Commodity**

Unless otherwise specified by the Corporation, the settlement of OTCI transactions for a specific Settlement Period shall be performed in accordance with the Settlement Rule specific to the OTCI and shall occur on the Settlement Date as defined in these Rules.

Settlement shall be made by an exchange of cash against the delivery of the Underlying Interest between the Corporation and each of the selling and buying Clearing Members, according to the following formula:

#### **(a) If the OTCI is a Forward Instrument, the settlement amount shall be determined as follow:**

- the Notional Quantity, multiplied by the
- Fixed Price, multiplied by the
- number of days as specified in the Instrument Type which are coincident with the Settlement Period, multiplied by the
- number of hours specified in the Profile (if applicable)
- as specified under the terms of the OTCI transaction.

- (b) If the OTCI is an Index Instrument, the settlement amount shall be determined as follows:
- the Notional Quantity, multiplied by the

Reference Index Price for every calendar day and hour (if applicable) specified by the Instrument Type and the Profile coincident with the Settlement Period as specified under the terms of the OTCI transaction.

- (2) Physically-Settled OTCI where the Underlying Interest is a Security

Unless otherwise specified by the Corporation, the settlement of OTCI transactions for a specific Settlement Period shall be performed in accordance with the Settlement Rule specific to the OTCI and shall occur on the Settlement Date as defined in these Rules.

Settlement shall be made by an exchange of cash against the delivery of the Underlying Interest between the Corporation and each of the selling and buying Clearing Members. The Settlement Amount of the exercise of the Option shall be determined as follows:

- the Notional Quantity multiplied by the
- Exercise Price, multiplied by the
- Unit of Trading.

#### **Section D-404** **GENERAL RIGHTS AND OBLIGATIONS OF CLEARING MEMBERS**

- (1) For the purposes of American Style Options:

- (a) A Clearing Member holding a Long Position in a Call Option has the right, on any Business Day prior to or on the Expiration Date, upon tender of an Exercise Notice, to purchase the Unit of Trading of the Call Option from the Corporation;
- (b) A Clearing Member holding a Short Position in a Call Option is required, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to deliver the Unit of Trading of the Option, in return for payment of the Exercise Price of the Call Option;
- (c) A Clearing Member holding a Long Position in a Put Option has the right, on any Business Day prior to or on the Expiration Date, upon tender of an Exercise Notice, to sell the Unit of Trading of the Put Option to the Corporation at the Exercise Price; and
- (d) A Clearing Member holding a Short Position in a Put Option is required, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay the Exercise Price upon delivery of the Unit of Trading of the Put Option.

For the purposes of European Style Options:

- (e) A Clearing Member holding a Long Position in a Call Option has the right, on (and only on) the Expiration Date, upon tender of an Exercise Notice in respect of such Option, to purchase the Unit of Trading of the Call Option from the Corporation at the Exercise Price;
- (f) A Clearing Member holding a Short Position in a Call Option is required, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to

deliver the Unit of Trading of such Option, in return for the payment of the Exercise Price of the Call Option;

- (g) A Clearing Member holding a Long Position in a Put Option has the right, on (and only on) the Expiration Date, upon tender of an Exercise Notice in respect of such Option, to sell the Unit of Trading of the Put Option to the Corporation at the Exercise Price; and
- (h) A Clearing Member holding a Short Position in a Put Option is required, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay the Exercise Price upon delivery of the Unit of Trading of the Put Option.

#### **Section D-405**

##### **UNAVAILABILITY OR INACCURACY OF REFERENCE INDEX PRICE**

- (1) If the Corporation determines that the Reference Index Price for an Underlying Interest is unreported or otherwise unavailable for purposes of calculating the Settlement Amount, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
  - (a) Suspend payment of the Settlement Amount. At such times as the Corporation determines that the required Reference Index Price is available, the Corporation shall fix a new date for Settlement.
  - (b) Fix the Reference Index Price in accordance with the best information available.
- (2) The reported Reference Index Price shall be deemed to be accurate, except that where the Corporation determines, in its discretion, that there is a material inaccuracy in the reported Reference Index Price, it may take such action as it determines, in its discretion, to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Reference Index Price to be used for settlement purposes.

#### **Section D-406**

##### **PAYMENT AND RECEIPT OF SETTLEMENT AMOUNT**

The Settlement Amount will be included with other settlements on the daily Consolidated Activity Report on the appropriate Settlement Date for the OTCI.

#### **Section D-407**

##### **INSTRUMENT SPECIFICATIONS**

The generic specifications for each OTCI transaction acceptable for clearing by the Corporation are summarized as follows:

Underlying Interest

Market Centre

Product Type

Type of Option

Instrument Type/Expiration

Profile

Exercise Rule

Exercise Price/Fixed Price

Basis

Settlement Type

Unit of measure/Unit of Trading

Settlement Currency

Settlement Rule

Reference Index

Reset Frequency

Minimum Threshold

Each OTCI transaction which the Corporation deems acceptable for clearing will be defined by a subset of the above parameters. In accordance with Section D-402, the Corporation will publish, from time to time, a list of acceptable parameters corresponding to these generic specifications.

## RULE D-5

### FINANCIALLY-SETTLED OVER-THE-COUNTER INSTRUMENTS

The Sections of this Rule D-5 are applicable only to OTCI settling on a future date where the Underlying Interest is financially settled.

#### Section D-501

##### DEFINITIONS

Notwithstanding Section A-102, for the purposes of OTCI, the following terms are defined as follows:

“**AESO**” – means Alberta Electric System Operator.

“**APP**” – means Alberta Power Pool and represents the Reference Index as computed by AESO.

“**Baseload**” – means the Profile of electricity to be delivered over the period of hour-ending 01 through hour-ending 24 for Sunday through to Monday inclusive.

“**Basis Swap**” – means a type of swap transaction whereby cash flows are exchanged at a predetermined future date; these cash flows are determined by two floating rates, namely Reference Index (1) and Reference Index (2), where both Reference Indices are expressed according to the same Unit of Measure and currency.

“**Eligible Index**” – means a composite securities index that is either the S&P/TSX 60 Index, the S&P/TSX Composite Index – Banks (Industry Group) or the S&P/TSX Capped Utilities Index.

“**Expiry Date**” – means the Business Day on which the OTCI expires.

“**Fixed Price**” – means the contract price specified in the OTCI transaction. However, in OTCI transactions which are Options, the Fixed Price is sometimes referred to as the Exercise Price.

“**Fixed-Rate Payer**” – means a contracting party to a Swap transaction that is charged with paying a fixed rate specified under the terms of the OTCI transaction.

“**Fixed Swap**” – means a type of swap transaction whereby cash flows are exchanged at a future date; cash flows are determined by one fixed rate and one floating rate (Reference Index (1)), where both the fixed rate and Reference Index (1) are expressed according to the same Unit of Measure and currency.

“**Floating-Rate Payer**” – means the contracting party in a Swap transaction that is charged with paying a floating rate specified under the terms of the OTCI transaction, where the floating rate is the value of the Reference Index specified under the terms of the OTCI.

“**Gj**” – means Gigajoule or 1,000,000,000 Joules.

“**Instrument Type**” – means the attribute of the OTCI which describes the time period over which delivery occurs for the Underlying Interest as specified under the terms of the OTCI.

“**MMBtu**” – means a million British Thermal Units.

“**MWh**” – means megawatt hour.

“**NERC**” – means North American Electric Reliability Council.

**“Off-Peak”** – means the Profile of electricity to be delivered over the period of hour-ending 01 through hour-ending 07 plus hour-ending 24 between Monday to Saturday inclusive plus hour-ending 01 through hour-ending 24 on Sundays as well as any other days classified as Off-Peak in accordance with the standard NERC operating calendar.

**“On-Peak”** – means the Profile of electricity to be delivered over the period of hour-ending 08 through hour-ending 23 for Monday through to Saturday inclusive.

**“Profile”** – means the Commodity sub-type or grade specified as to be delivered under the terms of the OTCI.

**“Reset Frequency”** – means the elapsed time interval between two successive Resets of a Reference Index.

**“Reference Index”** – means the index specified under the terms of an OTCI used to measure the value of a related Underlying Interest at a moment in time specified under the terms of the OTCI.

**“Reference Index Price”** – means the value of the Reference Index determined by the Corporation at the time of a specific reset.

**“Settlement Date”** – unless otherwise specified, means the day a payment is made under the terms of the OTCI. This day shall be determined by the Corporation and will depend on the Underlying Interest, Settlement Type and the Settlement Rule of the OTCI as well as the practices of the relevant Market Centre.

**“Settlement Period”** – unless otherwise specified, means the period from the 1st calendar day until the last calendar day of every month.

**“Settlement Rule”** – means either the current month (CM) or following month (FM), as outlined in the OTCI specifications.

**“Settlement Type”** – means financially settled.

**“Spread”** – means the Fixed Price to be added to or subtracted from the floating leg of an OTCI transaction.

**“Swap”** – means a derivative transaction which involves two contracting parties exchanging cash flows at some point in time in the future.

**“Underlying Security”** – means any of the Securities included in an Eligible Index Underlying an eligible index option class.

**“Unit of Measure”** – means the standard volumetric measurement quantity related to a particular Commodity.

**“Unit of Trading”** – means 100 shares of the Underlying Interest or units of the exchange-traded fund, or 10 times the level of the Eligible Index, unless otherwise indicated.

## **Section D-502**

### **OVER-THE-COUNTER INSTRUMENTS (OTCI) ACCEPTABLE FOR CLEARING WITH THE CORPORATION**

The Corporation shall, on a quarterly basis, issue a list of parameters defining the OTCI transactions that are acceptable for clearing with the Corporation.



**Section D-503**  
**FINAL SETTLEMENT THROUGH THE CORPORATION**

(1) Financially Settled OTCI where the Underlying Interest is a Commodity

Unless otherwise specified by the Corporation, the settlement of OTCI transactions for a specific Settlement Period shall be performed in accordance with the Settlement Rule specific to the OTCI and will occur on the Settlement Date, as defined herein. Settlement shall be made by an exchange of cash between the Corporation and each of the selling and buying Clearing Members, according to the following formula:

- (a) If the OTCI is a Fixed Swap, the settlement amount shall be determined as follows:
- the Notional Quantity, multiplied by the
  - difference between the Reference Index Price and the fixed rate, multiplied by the
  - number of days as specified in the Instrument Type which are coincident with the Settlement Period, multiplied by the
  - number of hours in the Profile (if applicable)
  - as specified under the terms of the OTCI transaction.
- (b) If the OTCI is a Basis Swap, the settlement amount shall be determined as follows:
- the Notional Quantity, multiplied by the
  - difference between Reference Index Price (1) and Reference Index Price (2), multiplied by the
  - number of days as specified in the Instrument Type which are coincident with the Settlement Period, multiplied by the
  - number of hours in the Profile (if applicable)
  - as specified under the terms of the OTCI transaction.

(2) Financially-Settled OTCI where the Underlying Interest is a Security

Unless otherwise specified by the Corporation, settlement of OTCI transactions for a specific Settlement Period shall be performed in accordance with the Settlement Rule specific to the OTCI and shall occur on the Settlement Date, as defined herein. Settlement shall be made by an exchange of cash between the Corporation and each of the selling and buying Clearing Members.

- (a) The Settlement Amount with respect to the exercise of a Call Option is determined by:
- the Notional Quantity, multiplied by the
  - difference resulting from the subtraction of the Exercise Price from the Reference Index Price, if such difference is positive, as specified in the OTCI transaction, multiplied by the
  - Unit of Trading.
- (b) The Settlement Amount with respect to the exercise of a Put Option is determined by:
- the Notional Quantity, multiplied by the
  - difference resulting from the subtraction of the Reference Index Price from the Exercise Price, if such difference is positive, as specified in the OTCI transaction, multiplied by the

- Unit of Trading.

(3) Financially-Settled OTCI where the Underlying Interest is an Eligible Index

Unless otherwise specified by the Corporation, the settlement of OTCI transactions for a specific Settlement Period shall be performed in accordance with the Settlement Rule specific to the OTCI and shall occur on the Settlement Date, as defined herein. Settlement shall be made by an exchange of cash between the Corporation and each of the selling and buying Clearing Members.

(a) The Settlement Amount with respect to the exercise of a Call Option is determined by:

- the Notional Quantity, multiplied by the
- difference resulting from the subtraction of the Exercise Price from the Reference Index Price, if such difference is positive, as specified in the OTCI transaction, multiplied by \$1,00 and by the
- Unit of Trading.

(b) The Settlement Amount with respect to the exercise of a Put Option is determined by:

- the Notional Quantity, multiplied by the
- difference resulting from the subtraction of the Reference Index Price from the Exercise Price, if such difference is positive, as specified in the OTCI transaction, multiplied by \$1,00 and by the
- Unit of Trading.

## **Section D-504**

### **GENERAL RIGHTS AND OBLIGATIONS OF CLEARING MEMBERS**

(1) For the purposes of American Style Options:

- (a) A Clearing Member holding a Long Position in a Call Option has the right, on any Business Day prior to or on the Expiration Date, to receive the Call Exercise Settlement Amount from the Corporation, upon tender of an Exercise Notice;
- (b) A Clearing Member holding a Short Position in a Call Option is required, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay the Call Exercise Settlement Amount to the Corporation;
- (c) A Clearing Member holding a Long Position in a Put Option has the right, on any Business Day prior to or on the Expiration Date, to receive from the Corporation, upon tender of an Exercise Notice, the Put Exercise Settlement Amount; and
- (d) A Clearing Member holding a Short Position in a Put Option is required, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay the Put Exercise Settlement Amount to the Corporation.

(2) For the purposes of European Style Options:

- (a) A Clearing Member holding a Long Position in a Call Option has the right, on (and only on) the Expiration Date, to receive the Call Exercise Settlement Amount from the Corporation, upon tender of an Exercise Notice;

- (b) A Clearing Member holding a Short Position in a Call Option is required, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay the Call Exercise Settlement Amount to the Corporation;
- (c) A Clearing Member holding a Long Position in a Put Option has the right, on (and only on) the Expiration Date, to receive the Put Exercise Settlement Amount from the Corporation, upon tender of an Exercise Notice; and
- (d) A Clearing Member holding a Short Position in a Put Option is required, upon the assignment to the Clearing Member of an Exercise Notice in respect of such Option, to pay the Put Exercise Settlement Amount to the Corporation.

## **Section D-505**

### **ADJUSTMENTS**

No adjustments will ordinarily be made in the terms of Eligible Index Options in the event that Underlying Securities are added to or deleted from an Eligible Index or when the relative mean weight of one or more Underlying Securities in an Index is changed. However, if the Corporation determines, in its sole discretion, that any such addition, deletion or change causes significant discontinuity in the level of the Index, the Corporation may adjust the terms of the affected Index Options by taking such action as the Corporation, in its sole discretion, deems fair to Clearing Members holding Short or Long Positions in these contracts. Determinations with respect to adjustments pursuant to this Section shall be made by the Adjustments Committee provided for in Subsection A-902(2).

## **Section D-506**

### **UNAVAILABILITY OR INACCURACY OF REFERENCE INDEX PRICE**

- (1) If the Corporation determines that the Reference Index Price for an Underlying Interest is unreported or otherwise unavailable for purposes of calculating the Settlement Amount, then, in addition to any other actions that the Corporation may be entitled to take under the Rules, the Corporation may do any or all of the following:
  - (a) Suspend payment of the Settlement Amount. At such times as the Corporation determines that the required Reference Index Price is available, the Corporation shall fix a new date for settlement.
  - (b) Fix the Reference Index Price in accordance with the best information available.
- (2) The reported Reference Index Price shall be deemed to be accurate, except where the Corporation determines, in its discretion, that there is a material inaccuracy in the reported Reference Index Price. In such a case, it may take such action as it determines, in its discretion, to be fair and appropriate in the circumstances. Without limiting the generality of the foregoing, the Corporation may require an amended Reference Index Price to be used for settlement purposes.

## **Section D-507**

### **PAYMENT AND RECEIPT OF SETTLEMENT AMOUNT**

The Settlement Amount will be included with other settlements on the daily Consolidated Activity Report on the appropriate Settlement Date for the OTCI.

## Section D-508

### INSTRUMENT SPECIFICATIONS

The generic specifications for each OTCI acceptable for clearing by the Corporation are summarized as follows:

Underlying Interest

Market Centre

Product Type

Type of Option

Instrument Type/Expiration

Profile

Exercise Rule

Exercise Price/Fixed Price

Basis

Settlement Type

Unit of Measure/Unit of Trading

Settlement Currency

Settlement Rule

Reference Index

Reset Frequency

Minimum Threshold

Each OTCI transaction which the Corporation deems acceptable for clearing will be defined by a subset of the above parameters. In accordance with Section D-502, the Corporation will publish, from time to time, a list of acceptable parameters corresponding to these generic specifications.

Disclaimer: The Converge® central counterparty clearing services and OTCI based on the S&P/TSX 60 Index, the S&P/TSX Composite Index - Banks (Industry Group) or the S&P/TSX Capped Utilities Index are not sponsored, endorsed, sold or promoted by S&P Dow Jones Indices LLC (“S&P”), its affiliates, or their third party licensors. Neither, S&P, nor its affiliates, or their third party licensors make any representation or warranty, express or implied, regarding the advisability of investing in OTCI based on the S&P/TSX 60 Index, the S&P/TSX Composite Index - Banks (Industry Group) or the S&P/TSX Capped Utilities Index or the ability of the Indices to track general stock market performance. S&P’s only relationship to CDCC is the licensing of certain trademarks and trade names of S&P and of the Indices, which are determined, composed and calculated by S&P without regard to the Converge® central counterparty clearing services and OTCI based on the S&P/TSX 60 Index, the S&P/TSX Composite Index

- Banks (Industry Group) or the S&P/TSX Capped Utilities Index. S&P has no obligation to take the needs of persons having an interest in OTCI based on the S&P/TSX 60 Index, the S&P/TSX Composite Index - Banks (Industry Group) or the S&P/TSX Capped Utilities Index into consideration in determining, composing or calculating the Indices. S&P has no obligation or liability in connection with the administration, marketing or trading of OTCI based on the S&P/TSX 60 Index, the S&P/TSX Composite Index - Banks (Industry Group) or the S&P/TSX Capped Utilities Index. NEITHER S&P, NOR ITS AFFILIATES, OR THEIR THIRD PARTY LICENSORS GUARANTEE THE ACCURACY, ADEQUACY, TIMELINESS AND/OR THE COMPLETENESS OF THE INDEX OR ANY DATA INCLUDED THEREIN AND S&P, ITS AFFILIATES AND THEIR THIRD PARTY LICENSORS SHALL HAVE NO LIABILITY FOR ANY ERRORS, OMISSIONS, DELAYS, OR INTERRUPTIONS THEREIN. NEITHER S&P, NOR ITS AFFILIATES, OR THEIR THIRD PARTY LICENSORS MAKE ANY WARRANTY, EXPRESS OR IMPLIED, AS TO RESULTS TO BE OBTAINED BY ANY PERSON OR ANY ENTITY FROM THE USE OF THE INDICES OR ANY DATA INCLUDED THEREIN IN CONNECTION WITH THE TRADING OF THE OTCI BASED ON THE S&P/TSX 60 INDEX, THE S&P/TSX COMPOSITE INDEX - BANKS (INDUSTRY GROUP) OR THE S&P/TSX CAPPED UTILITIES INDEX, OR FOR ANY OTHER USE. NEITHER S&P, NOR ITS AFFILIATES, OR THEIR THIRD PARTY LICENSORS MAKE ANY EXPRESS OR IMPLIED WARRANTIES, AND EXPRESSLY DISCLAIM ALL WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE WITH RESPECT TO THE INDICES OR ANY DATA INCLUDED THEREIN. WITHOUT LIMITING ANY OF THE FOREGOING, IN NO EVENT WHATSOEVER SHALL S&P, ITS AFFILIATES OR THEIR THIRD PARTY LICENSORS BE LIABLE FOR ANY INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE OR CONSEQUENTIAL DAMAGES, INCLUDING BUT NOT LIMITED TO, LOSS OF PROFITS, TRADING LOSSES, LOST TIME OR GOODWILL, EVEN IF THEY HAVE BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES, WHETHER IN CONTRACT, TORT (INCLUDING NEGLIGENCE), STRICT LIABILITY OR OTHERWISE.

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## **RULE D-6**

### **CLEARING OF FIXED INCOME TRANSACTIONS**

The Sections of this Rule D-6 are applicable only to the clearing of Fixed Income Transactions by the Corporation, to the Limited Clearing Members and to those Clearing Members who are required to make a base deposit to the Clearing Fund for Fixed Income Clearing as set out in Paragraph A-601(2)(d).

#### **Section D-601**

##### **DEFINITIONS**

Notwithstanding Section A-102, for the purposes of Fixed Income Clearing, the following terms are defined as follows:

**“Accrued Coupon Income”** – means, with respect to a Repurchase Transaction, the Coupon Income paid by an issuer of Purchased Securities and held by a Net Buyer under Paragraph D-606(5)(b) plus the accrued interest on such Coupon Income calculated at the Repo Rate for such Repurchase Transaction for the period from and including the date such Coupon Income was paid by such issuer up to and excluding the Repurchase Date.

**“Accrued Coupon Value”** – means, with respect to any Purchased Security, the proportion of the Coupon Income payable by the issuer of the relevant Security on the next Coupon Payment Date corresponding to the number of days that have elapsed since the immediately preceding Coupon Payment Date up to the applicable calculation date, calculated based on a calendar year of 365 days.

**“Afternoon Net DVP Settlement Requirement”** – means a settlement instruction sent to the Central Securities Depository at the Afternoon Netting Cycle Timeframe netting all then Pending Settlement Requirements between a Clearing Member and the Corporation, in accordance with Paragraph D-606(7)(b).

**“Afternoon Netting Cycle Timeframe”** – means the time specified in the Operations Manual at which the Corporation nets all then Pending Settlement Requirements into Afternoon Net DVP Settlement Requirements, in accordance with Paragraph D-606(7)(b).

**“Cash Buy or Sell Trade”** – means a transaction by which a Fixed Income Clearing Member buys (Cash Buy Trade) or sells (Cash Sell Trade) an Acceptable Security.

**“Close Leg”** – means, with respect to a Repurchase Transaction, the second part of a Repurchase Transaction where either (i) a Repo Party agrees to buy back Acceptable Securities from a Reverse Repo Party at a Repurchase Price to be paid by the Repo Party to the Reverse Repo Party, or (ii) a Reverse Repo Party agrees to sell back Acceptable Securities to a Repo Party at a Repurchase Price to be paid to the Reverse Repo Party by the Repo Party.

**“CORRA Rate”** – means the Canadian Overnight Repo Rate Average (CORRA) as determined by the appointed CORRA benchmark administrator.

**“Coupon Income”** – means the interest amount payable to the holder of a Security by its issuer on a Coupon Payment Date.

**“Coupon Payment Date”** – means a date on which the issuer of a Security pays Coupon Income to the holder of the Security.

**“Economic Terms”** – means the transactional details of a Fixed Income Transaction as set out in Subsection D-603(1).

**“End of Day DVP Settlement Time”** – means the time specified in the Operations Manual at which the Fixed Income Clearing Member must have satisfied all its Afternoon Net DVP Settlement Requirements and any Gross Delivery Requirements and Gross Payment Against Delivery Requirements resulting from Same Day Transactions submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time, in accordance with Paragraph D-606(7)(c).

**“Equivalent Security”** – means an Acceptable Security that is equivalent to the Purchased Security in that it is of the same issuer, part of the same issue and of an identical type, nominal value, description and (except where otherwise specified by the Corporation) amount as the Purchased Security.

**“Expected Novation Date”** – means the date on which a Fixed Income Transaction is submitted by the Fixed Income Clearing Members and on which they wish that the Corporation will accept it for clearance.

**“Fixed Income Clearing”** – means the provision of clearing services by the Corporation of Fixed Income Transactions.

**“Fixed Income Clearing Member”** – means an applicant which meets the criteria set out in Section A – 1A01 and Subsection A-301(4) and is approved by the Corporation for Fixed Income Clearing, or a Limited Clearing Member.

**“Fixed Income Transaction(s)”** – means Repurchase Transaction(s) and/or Cash Buy or Sell Trade(s).

**“Floating Price Rate”** – means, in respect of a Repurchase Transaction, the overnight index swap (“OIS”) rate for a term that is the same as the Term of such Repurchase Transaction (and if an OIS rate is not available for the applicable Term, such Floating Price Rate will be determined by interpolating the OIS rate between the two terms that are closest to the applicable Term), as determined by the Corporation in accordance with its customary practices for purposes of calculating mark-to-market payments and margin payments. For the purposes of this definition, “Term” shall mean the remaining number of days between the applicable calculation date and the Repurchase Date of the relevant Repurchase Transaction.

**“Forward Settlement Transaction”** – means a Cash Buy or Sell Trade or an Open Leg of a Repurchase Transaction, in each case, having a Purchase Date later than the Novation Date, or a Close Leg of a Repurchase Transaction.

**“Market Value”** – means, with respect to any Purchased Securities as of any time on any date, the current price as of such date for the relevant Purchased Securities as determined by the Corporation on the basis of then available price source quotations or alternative market information, as determined by the Corporation plus the Accrued Coupon Value in respect of such Purchased Securities to the extent not included in such current price.

**“Morning Net DVP Settlement Timeframe”** – means the timeframe specified in the Operations Manual during which there must be available funds in the designated CDS Funds Account and CDS Securities Account of the Clearing Member or of its Settlement Agent to settle the lesser of (i) its Morning Net Payment Against Delivery Requirement, and (ii) the amount of the CDCC Daylight Credit Facility, in accordance with Paragraph D-606(7)(c).

**“Morning Net Payment Against Delivery Requirement”** – means a settlement instruction sent to the Central Securities Depository at the Morning Netting Cycle Timeframe netting all then Pending Payment Against Delivery Requirements between a Clearing Member and the Corporation, in accordance with Paragraph D-606(7)(a).

**“Morning Netting Cycle Timeframe”** – means the timeframe specified in the Operations Manual during which the Corporation nets all then Pending Payment Against Delivery Requirements into Morning Net Payment Against Delivery Requirements, in accordance with Paragraph D-606(7)(a).

**“N-Day Term Repurchase Transaction”** – means a Repurchase Transaction with a term longer than one Business Day.

**“Net Buyer”** – means a Fixed Income Clearing Member whose aggregate net sum of Net Funds Transfer Requirement, Net Funds Reversal Requirement, any applicable Postponed Payment Obligation(s) and any other payment obligation against delivery of an Acceptable Security due by such Fixed Income Clearing Member to the Corporation on a given Business Day are greater than the aggregate net sum of Net Funds Transfer Requirement, Net Funds Reversal Requirement, any applicable Postponed Payment Obligation(s) and any other payment obligation against delivery of an Acceptable Security due by the Corporation to such Fixed Income Clearing Member on such Business Day, as determined by the Corporation pursuant to Paragraph A-801(2)(c).

**“Net Delivery Obligation”** – means, in respect of a Fixed Income Clearing Member, the quantity of a given Acceptable Security which is the aggregate net quantity of any Net Securities Transfer Requirement deliverable by or to such Fixed Income Clearing Member to or by the Corporation and any Net Securities Reversal Requirement deliverable by or to such Fixed Income Clearing Member to or by the Corporation, and any Rolling Delivery Obligation deliverable by or to such Fixed Income Clearing Member to or by the Corporation, as the case may be, with respect to such Acceptable Security, on a given Business Day, calculated in accordance with Subsection D-606(3).

**“Net Funds Reversal Requirement”** – means the amount which is the aggregate net sum of Repurchase Prices payable by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-606(2).

**“Net Funds Transfer Requirement”** – means the amount which is the aggregate net sum of Purchase Prices payable by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-606(1).

**“Net Payment Obligation”** – means, in respect of a Fixed Income Clearing Member, the amount which is the aggregate net sum of any Net Funds Transfer Requirement payable by or to such Fixed Income Clearing Member to or by the Corporation and any Net Funds Reversal Requirement payable by or to such Fixed Income Clearing Member to or by the Corporation, and any Postponed Payment Obligation due and payable by or to such Fixed Income Clearing Member to or by the Corporation, as the case may be, on a given Business Day, calculated in accordance with Subsection D-606(3).

**“Net Price Valuation Requirement”** – means, on any Business Day, the amount which is the aggregate net sum of all Price Valuation Requirements owed by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-607(2).

**“Net Repo Rate Requirement”** – means, on any Business Day, the amount which is the aggregate net sum of all Repo Rate Requirements owed by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-607(1).

**“Net Securities Reversal Requirement”** – means the aggregate net quantity of an Acceptable Security due by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-606(2).



**“Net Securities Transfer Requirement”** – means the aggregate net quantity of an Acceptable Security due by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-606(1).

**“Net Seller”** – means a Fixed Income Clearing Member whose aggregate net quantity of Net Securities Transfer Requirement, Net Securities Reversal Requirement, any applicable Rolling Delivery Obligation(s) and any other delivery obligation in respect of a given Acceptable Security due by such Fixed Income Clearing Member to the Corporation on a given Business Day are greater than the aggregate net quantity of Net Securities Transfer Requirement, Net Securities Reversal Requirement, any applicable Rolling Delivery Obligation(s) and any other delivery obligation in respect of a given Acceptable Security due by the Corporation to such Fixed Income Clearing Member on such Business Day, as determined by the Corporation pursuant to Paragraph A-801(2)(d).

**“Net Variation Margin Requirement”** - means, on any Business Day, the amount which is the aggregate net sum of all Net Repo Rate Requirements and all Net Price Valuation Requirements owed by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member, as the case may be, calculated in accordance with Subsection D-607(3).

**“Novation Date”** – means the date on which a Fixed Income Transaction is accepted by the Corporation for clearance subject to conditions set forth herein, provided that (i) for a Forward Settlement Transaction, if the Expected Novation Date is not a Business Day or the Fixed Income Transaction is submitted after the Netting Cut-Off Time on that Business Day, the Novation Date shall be deemed to be the immediately following Business Day; and (ii) for a Same Day Transaction, if the Expected Novation Date is not a Business Day or the Same Day Transaction is submitted after the Submission Cut-Off Time on a date that is a Business Day, the Corporation will not accept the Same Day Transaction for clearing.

**“Open Leg”** – means, with respect to a Repurchase Transaction, the first part of a Repurchase Transaction where either (i) a Repo Party agrees to sell Acceptable Securities to a Reverse Repo Party at a Purchase Price to be paid by the Reverse Repo Party to the Repo Party, or (ii) a Reverse Repo Party agrees to buy Acceptable Securities from a Repo Party at a Purchase Price to be paid to the Repo Party by the Reverse Repo Party.

**“OTCI Clearing Platform”** – means the dedicated trade input screens for clearing and settlement of OTCI operated and/or used by the Corporation.

**“Pending Delivery Requirements”** – means, in respect of a given Business Day, any Gross Delivery Requirements and/or any Net Delivery Requirements which are due on such Business Day and have not yet settled at the Afternoon Netting Cycle Timeframe.

**“Pending Payment Against Delivery Requirements”** – means, in respect of a given Business Day, any Net Payment Against Delivery Requirements and/or any Gross Payment Against Delivery Requirements which are due on such Business Day and have not yet settled at the Morning Netting Cycle Timeframe, or any Morning Net Payment Against Delivery Requirements and/or Gross Payment Against Delivery Requirements which are due on such Business Day and have not yet settled at the Afternoon Netting Cycle Timeframe, as the case may be.

**“Pending Settlement Requirements”** – means, collectively, any Pending Delivery Requirements and/or any Pending Payment Against Delivery Requirements at the Afternoon Netting Cycle Timeframe.

**“Price Differential”** – means, with respect to any Repurchase Transaction, an amount payable by the Repo Party equal to an amount obtained by application of the Repo Rate for such Repurchase Transaction to the Purchase Price for such Repurchase Transaction (on a 365 day basis), for the actual number of days of the term of such Repurchase Transaction.

**“Price Valuation Requirement”** – means, in respect of a Repurchase Transaction, an amount which is the aggregate amount calculated in respect of the difference between (i) the Market Value of the Purchased Security and (ii) the Repurchase Price of the Repurchase Transaction, plus any Coupon Income payable to the holder between the calculation date and the Repurchase Date, and, in respect of a Cash Buy or Sell Trade, an amount which is the difference between (i) the Market Value of the Purchased Security and (ii) the Purchase Price of the Cash Buy or Sell Trade; which amount is owed to the Corporation by a Fixed Income Clearing Member that is a party to such Repurchase Transaction or Cash Buy or Sell Trade or by the Corporation to such Fixed Income Clearing Member.

**“Purchase Date”** – means, with respect to any Repurchase Transaction, the date on which Purchased Securities are sold by the Repo Party to the Corporation and by the Corporation to the Reverse Repo Party; and with respect to any Cash Buy or Sell Trade, the date on which it settles, provided that if such date is not a Business Day, the Purchase Date shall be the immediately following Business Day.

**“Purchase Price”** – means, with respect to any Fixed Income Transaction, the amount at which the Purchased Securities are sold or to be sold by the Seller to the Corporation and by the Corporation to the Buyer.

**“Purchased Securities”** – means, with respect to any Fixed Income Transaction, the Acceptable Securities sold or to be sold by the Seller to the Corporation and by the Corporation to the Buyer.

**“Quantity of Purchased Securities”** – means, with respect to a Fixed Income Transaction, an amount equal to the Purchase Price for such Fixed Income Transaction on the Novation Date of such Fixed Income Transaction divided by the Market Value per dollar of the Specified Denomination of the relevant Purchased Securities, rounded up to the nearest whole number.

**“Repo Party”** or **“Seller”** – means, in respect of a Fixed Income Clearing Member, such Fixed Income Clearing Member who is the seller under a Fixed Income Transaction and who becomes the seller to the Corporation upon acceptance of the Fixed Income Transaction by the Corporation, and in respect of the Corporation, the Corporation when it has assumed the position of the seller under a Fixed Income Transaction pursuant to Section D-605. The term “Repo Party” will be used when referring specifically to a Repurchase Transaction, whereas the term “Seller” will be used when referring to a Cash Buy or Sell Trade or to Fixed Income Transactions generally.

**“Repo Rate”** – means, with respect to any Repurchase Transaction, the per annum fixed pricing rate agreed by the Repo Party and the Reverse Repo Party.

**“Repo Rate Requirement”** – represents a change in the current Floating Price Rate and means, in respect of a Repurchase Transaction, an amount calculated in respect of the difference between the Floating Price Rate and the Repo Rate; which amount is owed to the Corporation by a Fixed Income Clearing Member that is a party to such Repurchase Transaction or by the Corporation to such Fixed Income Clearing Member.

**“Repo Style”** – means, in respect of Coupon Income payments of any Repurchase Transaction, either the US convention that applies as set forth in Paragraph D-606(5)(a), or the Canadian convention that applies as set forth in Paragraph D-606(5)(b).

**“Repurchase Date”** – means, with respect to any Repurchase Transaction, a day on which Equivalent Securities are to be sold by a Reverse Repo Party to the Corporation and by the Corporation to a Repo Party, in accordance with Section D-606; provided that if such date is not a Business Day, the Repurchase Date shall be the immediately following Business Day.

**“Repurchase Price”** – means, with respect to any Repurchase Transaction, the sum of the Purchase Price and the Price Differential.

**“Repurchase Transaction”** – means A) a trade originally entered into between two Fixed Income Clearing Members which is submitted to the Corporation for clearing in which either (i) a Repo Party agrees to sell Acceptable Securities to a Reverse Repo Party at a Purchase Price to be paid by the Reverse Repo Party to the Repo Party, with a simultaneous agreement by the Repo Party to purchase Equivalent Securities from the Reverse Repo Party at a future date at a Repurchase Price to be paid to the Reverse Repo Party by the Repo Party, or (ii) a Reverse Repo Party agrees to buy Acceptable Securities from a Repo Party at a Purchase Price to be paid to the Repo Party by the Reverse Repo Party, with a simultaneous agreement by the Reverse Repo Party to sell Equivalent Securities to the Repo Party at a future date at a Repurchase Price to be paid by the Repo Party to the Reverse Repo Party, and, as appropriate in the circumstances, B) the Transaction resulting from the novation of the trade described in A) pursuant to Section D-605 of the Rules.

**“Reverse Repo Party”** or **“Buyer”** – means, in respect of a Fixed Income Clearing Member, such Fixed Income Clearing Member who is the buyer of a Fixed Income Transaction and who becomes the buyer to the Corporation upon acceptance of the Fixed Income Transaction by the Corporation, and in respect of the Corporation, the Corporation when it has assumed the position of the buyer under a Fixed Income Transaction pursuant to Section D-605. The term “Reverse Repo Party” will be used when referring specifically to a Repurchase Transaction, whereas the term “Buyer” will be used when referring to a Cash Buy or Sell Trade or to Fixed Income Transactions generally.

**“Same Day Transaction”** – means a Cash Buy or Sell Trade or an Open Leg of a Repurchase Transaction, in each case, having the same Novation Date and Purchase Date.

**“Specified Denomination”** – means, with respect to an Acceptable Security, the denomination in which it was issued.

**“Submission Cut-Off Time”** – means a time specified in the Operations Manual as the deadline on any Business Day for submitting Same-Day Transactions for clearance to the Corporation.

**“Variation Margin Requirement”** - means, in respect of a Fixed Income Transaction, an amount which is the aggregate net sum of the Repo Rate Requirement and the Price Valuation Requirement owed by a Fixed Income Clearing Member to the Corporation or by the Corporation to a Fixed Income Clearing Member.

Any capitalized term used in this Rule D-6 that is not defined in this Section D-601 shall have the meaning assigned to it in Section A-102.

## **Section D-602**

### **PARAMOUNTCY**

In the event of any inconsistency between the provisions of this Rule D-6 and the other provisions of the Rules, the provisions of this Rule D-6 will prevail.

**Section D-603**  
**ESSENTIAL TERMS OF FIXED INCOME TRANSACTIONS**

- (1) In addition to and not in lieu of the Acceptance Criteria set forth in Section D-104, the following Economic Terms of a Fixed Income Transaction shall be required to be submitted to the Corporation:

Seller

Buyer

Purchased Securities (CUSIP/ISIN)

Quantity of Purchased Securities

Expected Novation Date

Purchase Price

Purchase Date

Repurchase Date (as applicable)

Repo Rate (as applicable)

Repo Style (indicate whether it is a US or Canadian style Repurchase Transaction, as applicable).

- (2) Subject to conditions set forth herein, once a Trade Confirmation has been issued by the Corporation, the Corporation shall assume the position of the Seller and become a seller to Buyer and shall assume the position of the Buyer and become the buyer to Seller under all Fixed Income Transactions in each case, as principal to such Fixed Income Transactions, as a result of the novation process set forth in Subsection D-605(3).
- (3) On the Purchase Date of each Fixed Income Transaction, the Seller shall transfer the Purchased Securities on such Purchase Date against payment of the Purchase Price by the Buyer. On the Repurchase Date of each Repurchase Transaction, the Reverse Repo Party shall transfer the Equivalent Securities against payment of the Repurchase Price by the Repo Party. The transfer and payment obligations referred to in this provision shall be subject to netting and settlement processes set forth in Section D-606.
- (4) Notwithstanding the use of expressions such as “Repurchase Date”, “Repurchase Price” and “margin” or any other Rule, all right, title and interest (free from liens, claims, charges, encumbrances) in and to the Purchased Securities and Equivalent Securities and money transferred or paid under these Rules shall pass to the party receiving such Purchased Securities, Equivalent Securities and money upon transfer or payment, and no security interest or hypothec is created in the Purchased Securities and Equivalent Securities and money transferred or paid. Each Fixed Income Clearing Member shall execute and deliver all necessary documents and take all necessary steps to procure that all right, title and interest in any Purchased Securities and in any Equivalent Securities shall pass to the party to which transfer is being made upon transfer of the same in accordance with these Rules, free from all liens, claims, charges and encumbrances, and such

transfer will not violate any agreement to which such Fixed Income Clearing Member may be a party or by which such Fixed Income Clearing Member's property may be bound.

- (5) For purposes of the *Interest Act* (Canada), if any rate of interest payable under any Fixed Income Transaction is expressed to be calculated on the basis of a period less than a full calendar year, the yearly rate of interest to which such rate is equivalent is the product obtained by multiplying such rate by a fraction, the numerator of which is the actual number of days in the calendar year and the denominator of which is the number of days comprising such other basis.

#### **Section D-604**

##### **TRADE RECEPTION AND VALIDATION**

- (1) Any Repurchase Transaction or Cash Buy or Sell Trade must be submitted for clearing to the Corporation through an Acceptable Marketplace (whether bilateral or multilateral) or through the CDS trade matching facility. The Corporation may require evidence as it deems reasonably acceptable that a Fixed Income Clearing Member is a duly authorized participant of any multilateral Acceptable Marketplace. The Corporation shall not bear any responsibility or liability for any error, delay, misconduct, negligence, or any other act or omission, by the multilateral Acceptable Marketplace or the CDS trade matching facility, as applicable.
- (2) Once a Repurchase Transaction or Cash Buy or Sell Trade is received by the Corporation, a variety of validations will occur in accordance with the OTCI Clearing Platform procedure. These validations are designed to ensure that all Economic Terms match and all Acceptance Criteria set forth in Section D-104 are satisfied, and the Corporation does not accept any Repurchase Transaction or Cash Buy or Sell Trade bearing attributes that are determined by the Corporation as not acceptable for clearing. The Corporation will not accept a Repurchase Transaction with a Repurchase Date later than the maturity date of the applicable Purchased Securities.
- (3) Any Same Day Transaction submitted after the Submission Cut-Off Time specified in the Operations Manual shall not be accepted by the Corporation for clearance and may be submitted by Fixed Income Clearing Members to the Central Securities Depository independently without being novated to the Corporation. Any Forward Settlement Transaction submitted after the Netting Cut-Off Time specified in the Operations Manual shall be deemed received by the Corporation for clearance on the following Business Day.
- (4) If the Acceptable Marketplace used for submitting a Repurchase Transaction or Cash Buy or Sell Trade for clearing is a multilateral facility, each Fixed Income Clearing Member transacting as Buyer or Seller shall be responsible for timely affirming the Fixed Income Transactions on the OTCI Clearing Platform, as directed by the Corporation.

#### **Section D-605**

##### **CONFIRMATION AND NOVATION**

- (1) Once all validations have occurred and the Fixed Income Transactions are either (i) duly affirmed by the Fixed Income Clearing Members on the OTCI Clearing Platform or (ii) received for clearing by the Corporation from the CDS trade matching facility, the Corporation shall issue a Trade Confirmation with respect to each individual Fixed Income Transaction and send it to the transacting Fixed Income Clearing Members. A Fixed Income Clearing Member shall be bound by the terms of a Fixed Income Transaction for which the Corporation has issued a Trade Confirmation

in its name. The Corporation shall not bear any responsibility or liability for any error, delay, misconduct, negligence or other act or omission by the CDS trade matching facility.

- (2) The Corporation shall reject the Repurchase Transaction or Cash Buy or Sell Trade if (i) Economic Terms listed in Section D-603 are determined by the Corporation in its sole discretion as incorrect or incomplete when the Repurchase Transaction or Cash Buy or Sell Trade is submitted to the Corporation by or on behalf of a Fixed Income Clearing Member, or (ii) the Economic Terms submitted by or on behalf of the two Fixed Income Clearing Members that are parties to a Repurchase Transaction or Cash Buy or Sell Trade do not match, or (iii) any other Acceptance Criteria set forth in Section D-104 is not met. Such Repurchase Transaction or Cash Buy or Sell Trade will remain in effect solely between the persons party thereto in accordance with any terms agreed between them, and the Corporation shall have no further obligation or liability with respect to such Repurchase Transaction or Cash Buy or Sell Trade.
- (3) Upon the issuance of a Trade Confirmation by the Corporation under Subsection D-605(1) and notwithstanding the fact that the transacting Fixed Income Clearing Members may not have received such Trade Confirmation, the Repurchase Transaction or Cash Buy or Sell Trade shall be automatically novated to the Corporation, such that the original Repurchase Transaction or Cash Buy or Sell Trade between the two Fixed Income Clearing Members is cancelled and replaced by two equivalent Fixed Income Transactions, one between the Seller and the Corporation where the Corporation is substituted as the Buyer, and one between the Buyer and the Corporation where the Corporation is substituted as the Seller. In respect of the Economic Terms, the Fixed Income Clearing Member acting as a Seller or a Buyer under such original Repurchase Transaction or Cash Buy or Sell Trade shall have the same rights against, and owe the same obligations to, the Corporation under such Repurchase Transaction or such Cash Buy or Sell Trade to which it is a party as it had and owed in respect of its counterparty under the original Repurchase Transaction or Cash Buy or Sell Trade, as the case may be. For purposes hereof, a reference to the “same” rights or obligations is a reference to rights or obligations falling due for exercise or performance after the time at which a Trade Confirmation is issued in respect of a Fixed Income Transaction, and which are the same in nature and character as the rights or obligations arising from the Economic Terms of the original Repurchase Transaction or Cash Buy or Sell Trade (it being assumed, for this purpose, that such Repurchase Transaction or Cash Buy or Sell Trade was a legal, valid, binding and enforceable obligation of the parties thereto and that the Economic Terms thereof were as presented to the Corporation for clearing), notwithstanding the substitution in the person entitled to them or obliged to perform them and subject to any changes thereto as a result of the operation of these Rules.
- (4) Fixed Income Clearing by the Corporation is subject to, and contingent upon, the occurrence of the novation described in Subsection D-605(3) above. Effective as at the time of such novation, Fixed Income Clearing Members that were parties to the original Repurchase Transaction or Cash Buy or Sell Trade shall be released and discharged from their respective obligations to each other and the resulting Fixed Income Transactions shall be governed by these Rules.
- (5) If a Repurchase Transaction or a Cash Buy or Sell Trade is revoked, voided or otherwise declared invalid for any reason after the Economic Terms of it have been accepted by the Corporation for clearing, that revocation, avoidance or invalidity shall not affect any Fixed Income Transaction arising out of this Section D-605.

**Section D-606**  
**TRANSFERS AND PAYMENTS**

- (1) In respect of any Forward Settlement Transaction, excluding a Close Leg of a Repurchase Transaction, at the applicable Netting Cut Off Time on a Purchase Date, the Corporation shall calculate with respect to each Fixed Income Clearing Member (i) the Net Securities Transfer Requirement with respect to each Acceptable Security by aggregating the Purchased Securities of such Acceptable Security due by each Fixed Income Clearing Member on such Purchase Date and netting them against the Purchased Securities of such Acceptable Security due by the Corporation to such Fixed Income Clearing Member on such Purchase Date, and (ii) the Net Funds Transfer Requirement by aggregating all Purchase Prices due by each Fixed Income Clearing Member to the Corporation and netting them against all Purchase Prices due by the Corporation to such Fixed Income Clearing Member across all its Fixed Income Transactions.
- (2) In respect of any Close Leg of a Repurchase Transaction, at the applicable Netting Cut Off Time on each Repurchase Date, the Corporation shall calculate with respect to each Fixed Income Clearing Member (i) the Net Securities Reversal Requirement with respect to each Acceptable Security by aggregating the Equivalent Securities of such Acceptable Security due by each Fixed Income Clearing Member on such Repurchase Date and netting them against the Equivalent Securities of such Acceptable Security due by the Corporation to such Fixed Income Clearing Member on such Repurchase Date; and (ii) the Net Funds Reversal Requirement by aggregating all Repurchase Prices less all Accrued Coupon Income deductible pursuant to Paragraph D-606(5)(b), due by each Fixed Income Clearing Member to the Corporation and netting them against all Repurchase Prices less all Accrued Coupon Income deductible pursuant to Paragraph D-606(5)(b), due by the Corporation to such Fixed Income Clearing Member across all of its Repurchase Transactions.
- (3) At the applicable Netting Cut Off Time on each Business Day, for each Fixed Income Clearing Member, the Corporation shall calculate (i) the Net Delivery Obligation with respect to an Acceptable Security by aggregating and netting the Net Securities Transfer Requirement, the Net Securities Reversal Requirement, and any Rolling Delivery Obligation, as applicable, owing to or by the Fixed Income Clearing Member with respect to such Acceptable Security on such Business Day (which Net Delivery Obligation shall be subject to further netting pursuant to Paragraph A-801(2)(d) and the other provisions of Rule A-8 to determine the Net Delivery Requirement); and (ii) the Net Payment Obligation by aggregating and netting the Net Funds Transfer Requirement, the Net Funds Reversal Requirement, any Coupon Income payable pursuant to Paragraph D-606(5)(a), and any Postponed Payment Obligation, as applicable, owing to or by the Fixed Income Clearing Member, provided, however, these amounts shall not be netted against any other payment owing to or by a Fixed Income Clearing Member other than as prescribed under Paragraph A-801(2)(c) and the other provisions of Rule A-8 to determine the Net Payment Against Delivery Requirement.
- (4) At the applicable Netting Cut Off Time on each Business Day, the Net Delivery Obligations and the Net Payment Obligations will be netted against all other payment and delivery obligations with respect to Acceptable Securities to determine the Net Delivery Requirements and the Net Payment Against Delivery Requirements pursuant to Paragraphs (c) and (d) of Subsection A-801(2), and communicated by the Corporation to Fixed Income Clearing Members that are Net Sellers with respect to a given Acceptable Security and/or Net Buyers. Each Fixed Income Clearing Member is responsible for ensuring that there are sufficient funds and sufficient Equivalent Securities in respect of each Acceptable Security in the designated CDS Funds Account and CDS Securities Account of the Clearing Member or of its Settlement Agent to satisfy its Net Delivery Requirement.

and/or Net Payment Against Delivery Requirement, as applicable, as they become due in accordance with the rules of the Central Securities Depository and subject to Subsection D-606(7).

(5)

- (a) In respect of any Repurchase Transaction where the parties have agreed, as one of its Economic Terms, that Coupon Income will be paid to a Seller as it is received, known as a US style Repurchase Transaction, any Coupon Income paid by an issuer of Purchased Securities that has been transferred by a Net Seller to the Corporation and by the Corporation to a Net Buyer shall be paid on the Coupon Payment Date by the Net Buyer to the Corporation and by the Corporation to the Net Seller.
- (b) In respect of any Repurchase Transaction where the parties have agreed, as one of its Economic Terms, that Coupon Income will not be paid to a Seller as it is received, known as a Canadian style Repurchase Transaction, any Coupon Income paid by an issuer of Purchased Securities that has been transferred by a Net Seller to the Corporation, and by the Corporation to a Net Buyer, shall be held by the Net Buyer until the applicable Repurchase Date. On such Repurchase Date, the Repurchase Price otherwise payable by a Net Seller to the Corporation and by the Corporation to a Net Buyer in respect of such Repurchase Transaction shall be reduced by the Accrued Coupon Income.

- (6) In respect of any Same Day Transaction, payment of the Purchase Price by the Buyer and delivery of the Quantity of Purchased Securities by the Seller will be settled on a gross basis immediately following the novation of each Same Day Transaction under Subsection D-605(3). Each Fixed Income Clearing Member who submits Same Day Transactions is responsible for ensuring that there are sufficient funds and sufficient Acceptable Securities in the designated CDS Funds Account and CDS Securities Account of the Clearing Member or of its Settlement Agent to satisfy its Gross Delivery Requirement and/or Gross Payment Against Delivery Requirement, as applicable, as they become due in accordance with the rules of the Central Securities Depository and subject to Subsection D-606(7).

(7)

- (a) Notwithstanding the foregoing, at the Morning Netting Cycle Timeframe, the Corporation shall net any Pending Payment Against Delivery Requirements of a Fixed Income Clearing Member in favour of the Corporation against any Pending Payment Against Delivery Requirements of the Corporation in favour of the same Fixed Income Clearing Member to determine the Morning Net Payment Against Delivery Requirement payable to or from such Fixed Income Clearing Member in accordance with Subsection A-801(3).
- (b) Notwithstanding the foregoing, at the Afternoon Netting Cycle Timeframe, the Corporation shall net any Pending Delivery Requirements of a Fixed Income Clearing Member in favour of the Corporation against any Pending Delivery Requirements of the Corporation in favour of the same Fixed Income Clearing Member in respect of the same Acceptable Security to determine the Afternoon Net DVP Settlement Requirement deliverable to or from such Fixed Income Clearing Member in accordance with Subsection A-801(5)(i), and/or net any Pending Payment Against Delivery Requirements of a Fixed Income Clearing Member in favour of the Corporation against any Pending Payment Against Delivery Requirements of the Corporation in favour of the same Fixed Income Clearing Member to determine the Afternoon Net DVP Settlement Requirement payable to or from such Fixed Income Clearing Member in accordance with Subsection A-801(5)(ii).



- (c) Each Fixed Income Clearing Member is responsible for ensuring that there are sufficient funds in the designated CDS Funds Account of the Clearing Member or its Settlement Agent, to settle the lesser of (i) its Morning Net Payment Against Delivery Requirement, and (ii) the amount of the CDCC Daylight Credit Facility during the Morning Net DVP Settlement Timeframe, and that there are sufficient funds and sufficient Acceptable Securities in the designated CDS Funds Account and CDS Securities Account of the Clearing Member or of its Settlement Agent, to settle its Afternoon Net DVP Settlement Requirements and any Gross Delivery Requirements and Gross Payment Against Delivery Requirements resulting from Same Day Transactions submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time, by the End of Day DVP Settlement Time, and otherwise comply with the rules of the Central Securities Depository.

## **Section D-607**

### **VARIATION MARGIN REQUIREMENT**

- (1) At the end of each Business Day, the Corporation shall calculate, in accordance with the methodology set forth in the Risk Manual, in respect of all Repurchase Transactions to which a Fixed Income Clearing Member is a party, the Net Repo Rate Requirement that is required to be transferred by such Fixed Income Clearing Member or by the Corporation, by Settlement Time on the following Business Day, by aggregating all Repo Rate Requirements due by each Fixed Income Clearing Member to the Corporation and netting them against all Repo Rate Requirements due by the Corporation to such Fixed Income Clearing Member across all its Repurchase Transactions, provided that a Repo Rate Requirement in respect of a Repurchase Transaction shall not be calculated where the Business Day is the Repurchase Date of such Repurchase Transaction.
- (2) At the end of each Business Day, the Corporation shall calculate, in accordance with the methodology set forth in the Risk Manual, in respect of all Fixed Income Transactions to which a Fixed Income Clearing Member is a party, the Net Price Valuation Requirement that is required to be transferred by such Fixed Income Clearing Member or by the Corporation, by the Settlement Time on the following Business Day, by aggregating all Price Valuation Requirements due by each Fixed Income Clearing Member to the Corporation and netting them against all Price Valuation Requirements due by the Corporation to such Fixed Income Clearing Member across all its Fixed Income Transactions, provided that a Price Valuation Requirement in respect of a Repurchase Transaction shall not be calculated where the Business Day is the Repurchase Date of such Repurchase Transaction and, that a Price Valuation Requirement in respect a Cash Buy or Sell Trade shall not be calculated where the Business Day is the Purchase Date of such Cash Buy or Sell Trade.
- (3) Notwithstanding anything to the contrary herein, all obligations of a Fixed Income Clearing Member or of the Corporation in respect of a Net Repo Rate Requirement and a Net Price Valuation Requirement which are required to be transferred at the same Settlement Time, shall be aggregated and netted against each other such that only one net amount in the form of eligible collateral described in the Risk Manual shall be transferred either to a Fixed Income Clearing Member by the Corporation or to the Corporation by a Fixed Income Clearing Member. The aggregate net amount shall be referred to as the “**Net Variation Margin Requirement**”. For further clarity, a negative Net Variation Margin Requirement shall represent the amount owed by the Corporation to the Clearing Member and a positive Net Variation Margin Requirement shall represent an amount owed by a Clearing Member to the Corporation.
- (4) On any Business Day, if there is a decrease in a Net Variation Margin Requirement of a Fixed Income Clearing Member, the Corporation shall transfer, in accordance with and subject to the

conditions set forth in Section 8 of the Operations Manual, eligible collateral in an amount equal to the decrease and, if applicable, comprised of the same CUSIP/ISIN securities which were previously pledged by the Fixed Income Clearing Member to the Corporation for the purpose of satisfying the Net Variation Margin Requirement.

- (5) On any Business Day, if there is an increase in a Net Variation Margin Requirement of a Fixed Income Clearing Member, the Fixed Income Clearing Member shall transfer, in accordance with and subject to the conditions set forth in Section 8 of the Operations Manual, eligible collateral in an amount equal to the increase and, if applicable, comprised of the same CUSIP/ISIN securities which were previously pledged by the Corporation to the Fixed Income Clearing Member for the purpose of satisfying the Net Variation Margin Requirement.

## **PART E - FOREIGN CLEARING HOUSES**

### **RULE E-1 FOREIGN CLEARING HOUSES**

The provisions of this Part E shall apply only to transactions which are trades in Options issued by clearing houses, other than the Corporation, where the Corporation becomes a member of such clearing house and conducts business in its own name for the account of one or more Clearing Members.

#### **SECTION E-101 DEFINITIONS**

Notwithstanding Section A-102, for the purposes of Part E the following term is defined:

“Foreign Clearing House” – a corporation through which options are cleared, a member of which is the Corporation.

#### **SECTION E-102 NOTICE OF MEMBERSHIP**

Within 30 days of becoming a member of a Foreign Clearing House, the Corporation shall provide notice thereof to all Clearing Members.

#### **SECTION E-103 CLEARING TRANSACTIONS THROUGH FOREIGN CLEARING HOUSES**

Every Clearing Member which wishes to trade options through a Foreign Clearing House may so request by filing with the Corporation a notice in a form prescribed by the Corporation and, subject to the Rules, the Corporation shall consent to such request.

#### **SECTION E-104 RESPONSIBILITY OF MEMBERS**

Every Clearing Member on behalf of which the Corporation acts as a clearing member of a Foreign Clearing House shall comply with the by-laws, rules, regulations or policies established by the Corporation from time to time in order to ensure that the Corporation complies with the by-laws, rules, regulations and policies of each such Foreign Clearing House. Each Clearing Member by the delivery of the notice referred to in Section E-103 agrees to indemnify and save harmless the Corporation from and against any and all losses, liabilities, costs, claims, expenses or demands (or actions in respect thereof) including, without limitation, legal fees, arising in any manner from or in connection with or as a result of the failure by such Clearing Member to comply with such by-laws, rules, regulations or policies established by the Corporation from time to time; and failure to comply with such by-laws, rules, regulations or policies shall also subject such Clearing Member to disciplinary action pursuant to the Rules.