



NOTICE TO MEMBERS

No. 2020 - 011

January 27, 2020

SELF-CERTIFICATION

AMENDMENTS TO THE RULES AND RISK MANUAL OF THE CANADIAN DERIVATIVES CLEARING CORPORATION TO INTRODUCE THE S&P/MX INTERNATIONAL CANNABIS INDEX FUTURES

On October 31, 2019, the Board of Directors of the Canadian Derivatives Clearing Corporation (“CDCC”) approved amendments to the Rules and Risk Manual of CDCC in order to introduce the S&P/MX International Cannabis Index Futures. CDCC wishes to inform the Clearing Members that these amendments have been self-certified pursuant to the self-certification process set forth in the *Derivatives Act* (C.Q.L.R., c I-14.01) and submitted to the Ontario Securities Commission in accordance with the “Rule Change Not Requiring Approval in Ontario” process.

You will find attached hereto the amendments set to come into force and to be incorporated into the version of the Rules and Risk Manual of CDCC that will be made available on the CDCC website at www.cdcc.ca on **January 30, 2020**, after market close.

If you have any questions or concerns regarding this notice, please contact Alexandre Normandeau at 514-787-6623 or at alexandre.normandeau@tmx.com.

Jay Rajarathinam
President

[...]

PART C – FUTURES

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, ~~or~~ the S&P/TSX Capped Energy Index or the S&P/MX International Cannabis 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.

[...]

PART C – FUTURES

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“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 or the S&P/MX International Cannabis Index.

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“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.

REVISED VERSION

[...]

6.5 MARGIN INTERVAL

The MI is calculated using the following formula:

$$MI = \alpha \times \sqrt{n} \times \sigma$$

Where 'n' is the MPOR, 'α' is equal to the confidence level equivalent to 99.87% (three standard deviations) of the cumulative normal distribution (applicable to all products except for the BAX Futures and the S&P/MX International Cannabis Index Futures) or equal to the confidence value equivalent to 99% of the cumulative student's t-distribution with 4 degrees of freedom (applicable to the BAX Futures and the S&P/MX International Cannabis Index Futures). 'σ' is the volatility estimator of the contract's returns and is computed using an exponentially weighted moving average (EWMA) approach.

The formula for the estimator at any time *t* is:

~~$$Intra-Commodity M = \alpha \times \sqrt{n} \times \sigma$$~~

$$\sigma_t = \sqrt{\frac{(1 - \lambda) \sum_{i=1}^{260} \lambda^{i-1} (R_{t-i} - \bar{R})^2}{(1 - \lambda^{260})}}$$

Where *R* is the daily price returns of the Underlying Interests for Options and Share Futures and the daily price returns of the Futures prices for Futures (excluding Share Futures), \bar{R} is the mean return over the specified period and λ is the decay factor. CDCC uses $\lambda = 0.99$.

In addition, CDCC considers a floor for the EWMA volatility estimator defined above. The level of such floor is calculated as an average of daily EWMA volatility estimator observed over the last 10 years. The volatility estimator that will be used to calculate the MI cannot be lower than the calculated floor.

CLEAN VERSION

[...]

6.5 MARGIN INTERVAL

The MI is calculated using the following formula:

$$MI = \alpha \times \sqrt{n} \times \sigma$$

Where 'n' is the MPOR, ' α ' is equal to the confidence level equivalent to 99.87% (three standard deviations) of the cumulative normal distribution (applicable to all products except for the BAX Futures and the S&P/MX International Cannabis Index Futures) or equal to the confidence value equivalent to 99% of the cumulative student's t-distribution with 4 degrees of freedom (applicable to the BAX Futures and the S&P/MX International Cannabis Index Futures). ' σ ' is the volatility estimator of the contract's returns and is computed using an exponentially weighted moving average (EWMA) approach.

The implemented formula for the estimator at any time t is:

$$IM = \alpha \times \sqrt{n} \times \sigma$$

$$\sigma_t = \sqrt{\frac{(1 - \lambda) \sum_{i=1}^{260} \lambda^{i-1} (R_{t-i} - \bar{R})^2}{(1 - \lambda^{260})}}$$

Where R is the daily price returns of the Underlying Interests for Options and Share Futures and the daily price returns of the Futures prices for Futures (excluding Share Futures), \bar{R} is the mean return over the specified period and λ is the decay factor. CDCC uses $\lambda = 0.99$.

In addition, CDCC considers a floor for the EWMA volatility estimator defined above. The level of such floor is calculated as an average of daily EWMA volatility estimator observed over the last 10 years. The volatility estimator that will be used to calculate the MI cannot be lower than the calculated floor.