



NOTICE TO MEMBERS

No. 057-24

May 17, 2024

SELF-CERTIFICATION

AMENDMENTS TO THE DEFAULT MANUAL OF THE CANADIAN DERIVATIVES CLEARING CORPORATION REGARDING THE AUCTION TOOL USED TO ORGANIZE A DEFAULT AUCTION DURING A DEFAULT MANAGEMENT PERIOD

On October 26, 2023, the Board of Directors of the Canadian Derivatives Clearing Corporation (“CDCC”) approved certain amendments to its default manual (the “Default Manual”) to allow for the modification of the procedure followed by CDCC to organize a Default Auction during a Default Management Period.

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 of CDCC that will be made available on the CDCC website at www.cdcc.ca on **May 24, 2024**, after market close.

If you have any questions or concerns regarding this notice, please contact Dima Ghozaiel, Legal Counsel, by email at dima.ghozaiel@tmx.com.

George Kormas
President

BLACKLINE VERSION

Section 3: Risk Mitigation Tools

3.3 DEFAULT AUCTION

3.3.1 PRE-AUCTION PROCEDURE

Before proceeding with the suspended Clearing Member's portfolio auction, the Corporation must:

- Identify the Clearing Members which ~~are eligible~~can be invited to participate in the auction.
 - Determine which positions of the suspended Clearing Member will be part of the auction and distribute such positions into different portfolios (thereafter "Auction Portfolios").
 - Determine the value of the surviving Clearing Members' financial resources at risk in each Auction Portfolio.
- a) Invitation to participate in the auction
- For each Auction Portfolio, the Corporation will identify a set of "Eligible Clearing Members" which are Clearing Members that clear the asset class³ contained in such Auction Portfolio (including hedged positions and Hedge Open Positions if applicable), either directly, through their CDCC membership, or indirectly⁴, through a pre-existing clearing relationship with another CDCC Clearing Member whose membership covers the relevant asset class(es) with CDCC.
 - Participation in the Default Auction is voluntary for all Eligible Clearing Members. However, participation in the Corporation's ~~annual~~-default and recovery simulation is mandatory for all Clearing Members.

³ An asset class is a category of products sharing similar characteristics. Three different asset classes are cleared at CDCC, namely Futures, Options and Fixed Income.

⁴ An indirect participant must, as part of the CDCC annual due diligence process, demonstrate that it is an active participant in the relevant market with a pre-established relationship with another Clearing Member acting as its Clearing Member for that relevant asset class.

- ~~For each Auction Portfolio, the Corporation will invite all Eligible Clearing Members to confirm their intention to participate in the upcoming auction. Clearing Members who wish to participate in the auction shall send such confirmation in the prescribed time period specified in the invitation notification. Clearing Members who confirmed their intention to participate in the auction are referred to as “Auction Participants”.~~
- For each Auction Portfolio, the Corporation will notify all eligible Clearing Members of the upcoming auction. Clearing Members who wish to participate in the auction shall log in to the online CDCC default auction platform (the “Auction Platform”) in the prescribed time period specified in the notification. Clearing Members who participate in the auction via the Auction Platform are referred to as “Auction Participants”.
- All Auction Participants understand and acknowledge, for the purpose of the auction, that they will receive certain confidential information, including confidential information related to the suspended Clearing Member, and agree to treat such information with the highest standard of confidentiality.
- All Auction Participants shall participate in the auction in good faith, and any loss suffered by the Corporation as a result of any dishonest or fraudulent act of any of the Auction Participants whether committed alone or in collusion with others shall be charged to the wrongdoer.

CLEAN VERSION

**PROPOSED AMENDMENTS TO THE MANUAL
CLEAN VERSION**

Section 3: Risk Mitigation Tools

3.3 DEFAULT AUCTION

3.3.1 PRE-AUCTION PROCEDURE

Before proceeding with the suspended Clearing Member's portfolio auction, the Corporation must:

- Identify the Clearing Members which are eligible to participate in the auction.
 - Determine which positions of the suspended Clearing Member will be part of the auction and distribute such positions into different portfolios (thereafter "Auction Portfolios").
 - Determine the value of the surviving Clearing Members' financial resources at risk in each Auction Portfolio.
- a) Invitation to participate in the auction
- For each Auction Portfolio, the Corporation will identify a set of "Eligible Clearing Members" which are Clearing Members that clear the asset class⁵ contained in such Auction Portfolio (including hedged positions and Hedge Open Positions if applicable), either directly, through their CDCC membership, or indirectly⁶, through a pre-existing clearing relationship with another CDCC Clearing Member whose membership covers the relevant asset class(es) with CDCC.
 - Participation in the Default Auction is voluntary for all Eligible Clearing Members. However, participation in the Corporation's default and recovery simulation is mandatory for all Clearing Members.
 - For each Auction Portfolio, the Corporation will notify all eligible Clearing Members of the details of the upcoming auction. Clearing Members who wish to participate in the auction shall log in to the online CDCC default Auction Platform (the "Auction Platform") in the prescribed time period specified in the notification. Clearing Members

⁵ An asset class is a category of products sharing similar characteristics. Three different asset classes are cleared at CDCC, namely Futures, Options and Fixed Income.

⁶ An indirect participant must, as part of the CDCC annual due diligence process, demonstrate that it is an active participant in the relevant market with a pre-established relationship with another Clearing Member acting as its Clearing Member for that relevant asset class.

who participate in the auction via the CDCC Auction Platform are referred to as “Auction Participants”.

- All Auction Participants understand and acknowledge, for the purpose of the auction, that they will receive certain confidential information, including confidential information related to the suspended Clearing Member, and agree to treat such information with the highest standard of confidentiality.
- All Auction Participants shall participate in the auction in good faith, and any loss suffered by the Corporation as a result of any dishonest or fraudulent act of any of the Auction Participants whether committed alone or in collusion with others shall be charged to the wrongdoer.