NOTICE TO MEMBERS

No. 2023 - 062

May 1, 2023

Risk Model Change - Fixed Income Transactions

Pursuant to the Notice to Members 018-22, the Canadian Derivatives Clearing Corporation ("**CDCC**") would like to notify Clearing Members that amendments to the CDCC Risk Manual which are related to the risk model used to calibrate the Base Initial Margin ("**Base IM**") for Fixed Income Transactions will come into effect on May 12, 2023 after market close, subject to regulatory approval.

Amendments regarding the Base IM on Fixed Income Transactions margined under the VaR methodology will be implemented as a permanent response to the impacts of the COVID-19 market events on CDCC's margin models. The two main methodological changes will be:

- Historical shocks on the risk factors will now be calculated on an absolute basis instead of the current relative variations in the computation of the Historical Filtered Scenarios used for the Expected Shortfall.
- A Stressed Value-at-Risk ("**SVaR**") component will be integrated to the margin model as an additional measure to mitigate the procyclicality, and this one will be integrated alongside the Historical Risk (i.e. Expected Shortfall) using a weighted approach. This will replace the current Margin Buffer Multiplier, which will be decommissioned.

These two changes will be implemented after market close on May 12, 2023, and the impact on the Total Margin Requirement will be visible in the MS06 report available at the first Intra-Day margin calculation of the regular clearing cycle on May 15, 2023 (i.e. 10:30 a.m. ET). In addition, please note that CDCC will communicate the expected impact to every affected Clearing Member several days prior to the implementation date.

For further information, Clearing Members may contact the CDCC's Corporate Operations Department or direct email inquiries to cdcc-ops@tmx.com.

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