



NOTICE TO MEMBERS

No. 2025 - 072

May 15, 2025

REQUEST FOR COMMENTS

AMENDMENT TO THE RULES AND OPERATIONS, RISK AND DEFAULT MANUALS OF THE CANADIAN DERIVATIVES CLEARING CORPORATION REGARDING THE INTRODUCTION OF CLEARING SERVICES FOR EQUITY TOTAL RETURN SWAPS

On March 28, 2025, the Board of Directors of the Canadian Derivatives Clearing Corporation (“**CDCC**”) approved amendments to the Rules and Operations, Risk and Default Manuals of the Corporation in order to introduce the clearing of equity total return swaps over U.S. - listed products to Canadian and certain foreign participants.

Please find enclosed an analysis document as well as the proposed amendments.

Process for Changes to the Rules

CDCC is recognized as a clearing house under section 12 of the *Derivatives Act* (Québec) by the Autorité des marchés financiers (“**AMF**”) and as a recognized clearing agency under section 21.2 of the *Securities Act* (Ontario) by the Ontario Securities Commission (“**OSC**”).

The Board of Directors of CDCC has the power to approve the adoption or amendment of the Rules and the Manuals of CDCC. Amendments are submitted to the AMF in accordance with the self-certification process and to the OSC in accordance with the process provided in the Recognition Order.

Comments on the proposed amendments must be submitted before **June 16, 2025**. Please submit your comments to:

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A copy of these comments shall also be forwarded to the AMF and to the OSC to:

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For any question or clarification, Clearing Members may contact Maxime Rousseau-Turenne, Legal Counsel, by email at maxime.rousseauturenne@tmx.com.

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AMENDMENTS TO THE RULES, OPERATIONS MANUAL, RISK MANUAL AND DEFAULT MANUAL OF THE CANADIAN DERIVATIVES CLEARING CORPORATION REGARDING THE INTRODUCTION OF CLEARING SERVICES FOR EQUITY TOTAL RETURN SWAPS

I. DESCRIPTION

The Canadian Derivatives Clearing Corporation ("CDCC"), wishing to offer the inter-dealer market the benefits of clearing an equity financing tool, hereby proposes to introduce the clearing of equity total return swaps ("TRS") over U.S. - listed products to Canadian and certain foreign participants.

CDCC's proposed TRS clearing service (the "TRS Service") concentrates on clearing Proprietary Swap Transactions denominated in USD, based on equity underlyings that are part of the main U.S. equity shares indices, specifically on contracts that are bespoke baskets or indices meeting the definition of a broad-based index as defined by the U.S. Commodity Futures Trading Commission (the "CFTC").

CDCC has worked closely with the industry to develop a service that meets CDCC's rigorous risk and operational standards, and aligns with the market conventions generally used in the U.S. over-the-counter ("OTC") derivatives market. To that end, CDCC hereby proposes to introduce changes to CDCC's Rules (the "Rules") and associated Operations, Risk and Default Manuals (the "Manuals") (collectively, the "Proposed Amendments") to facilitate the transfer from the OTC market to the OTC-cleared service for greater market adoption of a cleared solution for TRS, and of TRS in general. CDCC submits that these Proposed Amendments will provide margin, settlement and operational efficiencies, and support greater market efficiency through improved risk management systems, liquidity and transparency.

Unless otherwise defined herein, any defined term used in this analysis will have the meaning ascribed to it in the Rules.

II. PROPOSED AMENDMENTS

CDCC's Proposed Amendments aim at introducing the following key changes to CDCC's Rules and Manuals:

(i) the introduction in the Rules of a new Rule D-8, which establishes the product specification and contractual basis of the TRS Services;

(ii) amendments to Sections A-1A01 and A-1A02 of the Rules, to introduce a new membership category for Canadian entities or U.S. or foreign-based entities permitted to enter into Proprietary

Swap Transactions in the U.S. market, and to establish this new membership's eligibility criteria and standards;

(iii) amendments to Rule A-6 and A-6A, the introduction of Rule A-7A, as well as amendments to Sections 1, 3 and 5 of the Risk Manual, to introduce the risk methodology covering the Margin, the Supplemental Liquidity Fund and Clearing Fund calculation for Proprietary Swap Transactions;

(iv) amendments to Section A-6 of the Rules and to the Default Manual, to introduce the approach to CDCC's Swap Default Management process to take into account the new TRS Service; and

(v) in support of the above, amendments to the Operations Manual to describe the timeline, process and daily activities supporting the new clearing service.

Additionally, various minor changes would be implemented to the Rules and Operations, Risk and Default Manuals to take into account the introduction of the new terminology associated with the TRS Service.

The Proposed Amendments are provided herein in Appendix "A".

SUMMARY OF THE PROPOSED AMENDMENTS

(i) Proprietary Swap Transactions

In line with the overarching objective to offer the clearing of bilaterally negotiated TRS, the new Section D-8 introduces, inter alia, the specifications of contracts acceptable for clearing (Section D-803), addresses the novation process (Section D-804), the treatment of dividends and Corporate Actions (Sections D-807 to D-814), Resets and supported amendments (Section D-806), and the return calculation methodology (Section D-815). Proprietary Swap Transactions are subject to daily cash settlement resulting from both the Equity and Floating Legs (Section D-815) and daily Margin calculation and payment. These amendments are further supported by the associated changes to the Operations Manual, which describes the timeline, process, and daily activities supporting the new clearing service.

Rule	Description	Purpose of the change
Section D-801 and A-1	Definitions & Core principles	Establishes the key principles and concepts supporting the elaboration of the Proprietary Swap Transaction clearing service. The service is limited to Proprietary Accounts (as defined under CFTC Regulation 1.3) transactions and Eligible Index and Basket that meet the CFTC definition of Broad-based index. Key principles also include the permissible universe of Acceptable Underlying (Eligible Share, Eligible Index and Eligible Basket), day count conventions, Settlement Time and Settlement Date, Calculation Date, Maturity Date and Termination Dates.

Section D-803 & D-806	Essential Economic Terms of a Proprietary Transaction	Establishes the product specifications (Economic Term) and permitted amendments.
Section D-804, D-805	Trade Processing	Establishes the clearing service process including trade submission, risk, regulatory and clearing validation, clearing acceptance criteria and novation.
Section D-807 to D-813	Corporate Actions	Establishes the principles governing the processing of dividends payments, corporate actions and transformation events affecting Basket Shares to replicate, to the extent possible, the total performance of the underlying shares.
Section D-815	Payments	Establishes the principles for daily transactions calculation, resets, Equity and Floating Amounts and the payment of Swap Net Settlement Amount which captures the daily Total Return performance.

(ii) Swap Clearing Members

Considering the integrated nature of the North American inter-dealer market for OTC equity derivatives, and taking into account the objective to offer the clearing of proprietary transactions only, CDCC is introducing a distinct Swap Clearing Member category to support the new clearing service. The Swap Clearing Member category, accessible to certain Canadian, U.S., and foreign entities that transact swaps on a principal basis, will permit those entities that meet the financial, operational, and regulatory criteria in Section A-1A to apply for access to CDCC's TRS Service.

Rule	Description	Purpose of the change
Section A01 (b)	Eligibility for Membership	Establishes the eligibility requirements for applicants looking to become Swap Clearing Members to extend the membership, in addition to the CDCC's current Clearing Members, to U.S. Broker-Dealers, U.S. regulated Banks, U.S. CFTC regulated FCMs and Swap Dealers.
Section A02	Standards of Membership	Provides the relevant standards of membership including Swap Clearing Members' financial resilience requirements, operational adequacy, initial Swap Tranche deposits.
Section A03	Admission Procedure	Establishes the procedure conducted by the Corporation in recommending an approval or disapproval for applicants' membership.

Section A-301 (5)	Financial Resilience Requirements	Establishes the minimum capital requirements for Canadian and U.S. Swap Clearing Members.
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(iii) Proprietary Swap Transactions Risk Methodology

To establish a distinct methodology suited to the clearing of Proprietary Swap Transactions, Sections 1, 3 and 5 of the Risk Manual are amended to establish the Risk architecture covering the TRS Service. The proposed Margin methodology will be based on the Proprietary Swap Transactions' Value at Risk (VaR), supplemented by a distinct set of new Margin add-ons to address the specific risks associated with TRS. These add-ons include Additional Margins for Stress Test Risk, and Dividend Payment Risk. Existing Additional Margins for Liquidity Risk, Wrong-Way Risk, Intra-Day Variation Margin Risk, Banking Holiday Risk, and Capital Risk will also extend to Proprietary Swap Transactions, with applicable adjustments. In line with the universe of equity underliers of the Proprietary Swap Transactions, CDCC is adopting a distinct Collateral schedule to include U.S. equities and Debt securities issued and guaranteed by the U.S. government. Supplementing the ordinary treatment of equities collateral, CDCC also proposes to adopt a distinct treatment of certain equity collateral, recognizing the correlation of such collateral with a Clearing Member's cleared TRS positions ("Collateral in Margin").

To support a service denominated in USD, in line with the underliers referenced in the contracts, CDCC proposes to introduce an additional swap Clearing Fund contribution (the "TRS Tranche") denominated in USD. In line with CDCC's Cover 1 regulatory obligation and acknowledging the specific nature of the TRS Service, CDCC's Clearing Fund methodology will size independently the credit and liquidity resources required for its existing services (CDCC's Core Services) and the proposed TRS Service. The introduction of a USD tranche is supported by a modified allocation methodology (the "Tranche Approach"). In the event of a default of a Swap Clearing Member, the Tranche Approach will prioritize the use of resources within the TRS Tranche of resources to absorb losses. The sequence begins with the defaulter's own resources, followed by the Default Risk Capital. If additional funds are needed, the Clearing Fund contributions from surviving TRS Clearing Members will be utilized. Finally, if the TRS Tranche resources are exhausted, remaining losses can be covered by the Clearing Fund contributions from the Core Service tranche. The same mirrored approach will apply in the case of default in the Core Service tranche. Accordingly, Rule A6, which governs the Clearing Members' obligations with respect to the Clearing Fund contribution, will apply to Swap Clearing Members, mutatis mutandis.

Risk Manual / Rules Section	Description	Purpose of the change
Glossary	Definitions & Core principles	Establishes the key principles and concepts supporting the elaboration of the Proprietary Swap Transaction clearing service risk methodology, including Swap Initial Margin (Swap Base Initial Margin and Additional Margin ("add-on")), Swap Tranche (comprised of the Clearing Fund and Supplemental Liquidity Fund associated with

		Proprietary Swap Transactions activities).
Section 1.1.1.1	Core Base Initial Margin and Swap Base Initial Margin	Establishes the risk methodology (VaR approach) for Proprietary Swap Transactions, incorporating volatility estimators, confidence levels, MPOR variables, and Stress Risk components calculated with a Stressed Value at Risk (SVaR) and weighting factor. In scenarios with insufficient historical prices, a Flat Rate is utilized.
Section 1.1.1.2	Additional Margins	Outlines and describes the new margin add-ons designed to mitigate the risks associated with Proprietary Swap Transactions along with preexisting additional margin add-ons. These additional margins include: (1) Additional Margin for Stress Test Risk, and (2) Additional Margin for Dividend Payment Risk.
Section 1.1.2.4	Variation Margin - Proprietary Swap Transactions	Specifies that the Proprietary Swap Transactions daily changes that occur as a result of market fluctuations (e.g., Swap Net Settlement Amount) are cash-settled on each Swap Business Day.
Section 1.1.3.3	Collateral-in-Margin	Establishes that Swap Clearing Members may deposit certain Valued Securities (considered in Swap Initial Margin requirements calculation) and outlines the methodology for calculating Initial Margin at the Risk Account level on a net basis.
Section 1.1.3.4	Margin Aggregation: Initial Margin Requirements - Proprietary Swap Transactions	Specifies that the Proprietary Swap Transactions daily changes that occur as a result of market fluctuations (known as Swap Net Settlement Amount) are aggregated at the Clearing Member level in accordance with Section D-815(3) of the Rules and are cash-settled on each Swap Business Day.
Section 1.2 & 1.3	Clearing Fund and Supplemental Liquidity Fund Requirements	Introduces the methodology for the sizing and requirements of the Core Tranche and Swap Tranche of the Clearing Fund. Additionally, establishes that the components of the Supplemental Liquidity Fund of the Swap Tranche include the Main Component and the Prefunded Component.
Section 3.1	Forms of Collateral	Sets out the forms of collateral eligible for Proprietary Swap Transactions for the purposes of Initial Margin and the Clearing Fund / Supplemental

		Liquidity Fund.
Section 3.4.3	Valued Securities Eligibility for Proprietary Swap Transactions	Establishes the eligibility criteria for Valued Securities in Proprietary Swap Transactions.
Section 3.5.2.2 & 3.5.2.5	Limit in Respect of the Clearing Fund	Outlines that the Swap Tranche of the Clearing Fund and the Supplemental Liquidity Fund must be covered only by cash in USD.
Section 3.5.2.3	Limit on the Margin Requirements for Proprietary Swap Transactions	Establishes limits on the use of Standard Valued Securities and Treasury inflation-protected securities (TIPS) to cover Swap Margin requirements for Proprietary Swap Transactions.
Section 3.6.3	Haircuts for Valued Securities – Proprietary Swap Transactions	Establishes the application of Haircuts to eligible Valued Securities pledged as collateral for Proprietary Swap Transactions and outlines CDCC's responsibility to monitor and periodically review the list of eligible Valued Securities and Haircuts.
Section 5.6	Swap Base Initial Margin Calculation	Outlines the VaR methodology used to calculate the Swap Base Initial Margin.
Rule A-6 & 6A	Clearing Fund Deposits & Supplemental Liquidity Fund	Establishes the composition of the Clearing Fund and the Supplemental Liquidity Fund (Core Tranche and Swap Tranche) and the methodology for which they are independently sized in accordance with the Risk Manual.

(iv) Swap Default Management

Recognizing the specific nature of Swap products, CDCC proposes to adopt a comprehensive approach to manage the default of a Swap Clearing Member. The proposed approach includes: (i) the adoption of a specific Default Management process, including distinct triggers and the aforementioned tranche waterfall approach; (ii) updates to the governance framework of the Default Management and Recovery Committee ("DMRC"), including establishing a Default Management Group ("DMG"), comprised of experts from Swap Clearing Members and DMRC members; (iii) specific risk mitigation tools, Swap auction and a loss allocation methodology to improve the likelihood of restoring a matched book; and (iv) ancillary amendments to the recovery plan.

Default Manual Section	Description	Purpose of the Change
Section 1 - Default Management Process - Triggers and Implementation	Incorporated relevant practices for the impact of Proprietary Swap Transactions on auctions, waterfalls, DRC, and open position transfers and applied Rule changes for postponing delivery obligations.	Ensuring clarity in the definitions to encompass Proprietary Swap Transactions.
Section 2 - Default Management Governance	Updating additions and lists of the Default Management and Recovery Committee ("DMRC") and introducing the Default Management Group ("DMG") applied only to Proprietary Swap Transactions.	Creation of the Default Management Group ("DMG") to provide hedging and liquidation strategies applied to Proprietary Swap Transactions.
Section 3 - Risk Mitigation Tools	Updating Risk Mitigation Tools, the auction format and the loss allocation methodology for Proprietary Swap Transactions.	<p>Adoption of distinct Risk mitigation tools, including Voluntary Close out, allowing for positions to be terminated, or closed through in the market through inter-dealer brokerage.</p> <p>Adoption of a specific Auction format—a multi-unit auction—whereby participants are required to bid on a percentage of the entire auction portfolio, subject to a Minimum Participation Rate.</p> <p>Adoption of new loss allocation methodology applied to Proprietary Swap Transactions.</p>
Section 4 - Recovery Plan	Adding definition for Qualified Amount calculation and Voluntary Contract Tear-Up for Proprietary Swap Transactions.	Ensuring Clearing Members are aware of the potential exposures after triggering the recovery process
Appendix 2: - Loss Allocation Methodology	Additional explanation of the loss allocation methodology in Proprietary Swap Transactions to apply to the tranche waterfall.	Ensuring Clearing Members understand the updated loss allocation methodology with the tranche waterfall.
Appendix 3: - Bidding Incentives	Additional explanations for bidding incentives and loss allocation	Ensuring Clearing Members understand the additional bidding

and the Loss Allocation Methodology	methodology for Proprietary Swap Transactions.	behavior assessment and loss allocation methodology applied to Proprietary Swap Transactions.
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III. ANALYSIS

a. Background

Global Context

Over the past decade, the introduction of the uncleared margin rules and the latest revision of the Basel III reforms have significantly changed the dynamics of the securities financing market. In particular, firms using equity financing products, such as TRS, as funding tools have expressed a need for a solution to alleviate market frictions. While domestic U.S. firms maintain direct access to USD through various means, Canadian and foreign firms operating in the U.S. may face limitations in accessing cash. As the OTC equity financing market continues to grow, so does the pressure on participants. Market participants have highlighted a cleared solution, if structured adequately, as the preferred approach to address credit, operational, and collateral frictions, which is in line with the central clearing of financial instruments as an objective that has been promoted by the G20 leaders and supported by financial reforms introduced globally since the 2007-2009 Great Financial Crisis.

b. Objectives

CDCC proposes to amend the Rules and Operations, Risk and Default Manuals to introduce the clearing of Proprietary Swap Transaction.

CDCC further submits that the Proposed Amendments will increase the utility and the effectiveness of the equity funding market, strengthen the functioning of the Canadian derivatives market generally, and better serve the interests of its members.

c. Comparative Analysis

No global derivatives clearinghouse currently offers the clearing of a comparable product. Today, the equities funding market relies on bilateral transactions such as TRS or Securities lending products. In the U.S. and other jurisdictions, certain hybrid and listed products are also available.

- Exchange-traded Derivatives

CME and Eurex each offer Index Total Return Futures (TRFs) on most major indices. CME offers a dividend Future and an Adjusted Interest Rate (AIR) Total Return Future on selected US equities index. AIR rates depend on the referenced index.. The CME AIR is marketed as an alternative to TRS and other standardized futures¹. AIR products are cash-settled, listed, and cleared with

¹ <https://www.cmegroup.com/trading/equity-index/us-index/air-total-return-index-futures.html>

standard expiration dates. The AIR product supports a customized Spread.

In Europe, Eurex offers a TRF on selected indices². Eurex's TRFs are listed and cleared with standard expiration dates. They also support a customized spread.

- OTC Cleared Derivatives

In 2023, Nasdaq Stockholm AB, through its Exchange, introduced a Custom Basket Forward product over a universe of European and U.S. stocks³. The product is structured as a hybrid listed derivative; upon creation, participants can choose to list the basket or keep it private. In either case, the product is cleared with standard expiration dates.

d. Analysis of Impacts

i. Impacts on the Market

The Proposed Amendments aim to provide the market with an industry-designed cleared alternative to the OTC TRS. The central clearing of financial instruments is an objective promoted by the G20 leaders and supported by financial reforms introduced since the 2007-2009 Great Financial Crisis. Surveyed market participants supported a voluntary and flexible cleared alternative to alleviate the margin, liquidity, and capital pressures felt in the bilateral market while enhancing risk management standards through central counterparty clearing.

The Proposed Amendments will offer market participants a service that supports the flexibility required in the funding market while enhancing the risk management profile of such products through central clearing. The voluntary approach to service adoption will minimize market disturbances related to the launch of the service. Market participants are expected to manage their service adoption by gradually replacing OTC positions with cleared TRS.

As the proposed TRS Service offering supports the clearing of bilaterally negotiated transactions, such transactions will be subject to position and margin reporting to regulators, thus providing enhanced transparency in this market segment.

ii. Impacts on Technology

The Proposed Amendments will have the following impacts on the technological systems of CDCC and of third-parties.

In support of the new clearing service, CDCC is launching a web portal accessible to Swap Clearing Members for trade management purposes. The portal will enable Clearing Members or authorized parties to submit and amend their TRS trades, as well as track ongoing TRS positions. This new web portal will be integrated with the existing infrastructure for direct access to the Clearing system.

²<https://www.eurex.com/resource/blob/4128172/589cb8bfbf688a9fbd1f8814f734ba61/data/factsheet-stoxx-europe-600-total-return-futures.pdf>

³ <https://www.nasdaq.com/docs/2023/5/31/Custom-Basket-Forwards-Presentation.pdf>

CDCC's Clearing system will be updated to support TRS operations on U.S. business days. Core and TRS Services will be segregated by jurisdiction to allow TRS to operate on Canadian holidays without impacting other CDCC clearing services, and to allow other clearing services to operate during scheduled holidays for TRS.

CDCC is also proposing to adjust its Corporate Action management tools to support corporate actions on bespoke TRS.

To support the proposed changes regarding collateral management, CDCC proposes to support additional funds with distinct native currencies: TRS Margin, TRS Liquidity Fund, and TRS Clearing will be maintained in USD in the clearing system.

Adaptations will be made to the risk system and applications in order to calculate the margin requirements associated with the TRS positions. The technology enhancements are required to adequately monitor the risk exposure along with the different funds needed to properly measure the risk. These adaptations also include expanding the set of data used to support the margin model calibration and clearing activity.

iii. Impacts on Trading Functions

As the Proposed Amendments only pertain to the Clearing system (i.e. the introduction of a clearing service for specific OTC derivatives), they will have no impact on the trading functions of the Bourse de Montréal Inc.

iv. Public Interest

CDCC considers the Proposed Amendments to be in the interest of the public as it offers a voluntary alternative to one segment of the OTC TRS market. The Proposed Amendments offer global derivatives market participants - such as banks, Futures Commission Merchants, and Swap Dealers - a way to optimize the management of their TRS portfolio by harnessing the benefits of multilateral netting and central clearing while retaining the flexibility required for such transactions. The funding market will benefit from this alternative without disrupting the OTC market.

IV. PROCESS

The Proposed Amendments, including this analysis, must be approved by CDCC's Board of Directors and submitted to the Autorité des marchés financiers, in accordance with the regulatory self-certification process, and to the Ontario Securities Commission in accordance with the rules stated in Appendix "A" of Schedule "A" CDCC Recognition Order dated June 15, 2023. The Proposed Amendments and analysis will also be submitted to the Bank of Canada in accordance with the Oversight Agreement. Subject to public comments and following regulatory approval, the Proposed Amendments are expected to take effect during H2-2026.

APPENDIX A: PROPOSED AMENDMENTS TO THE RULES AND MANUALS

CDCC RULES

BLACKLINE VERSION

**CANADIAN DERIVATIVES CLEARING CORPORATION
RULES**

~~FEBRUARY 28, [...]~~ 20252026

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

“1934 Act” – means the US Securities Exchange Act of 1934.

“Acceptable Instrument Types” or **“Acceptable OTCI”** – means Over-the-Counter Instruments and Proprietary Swap Transactions 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 ~~HR0CCIRO~~ Rules including ~~HR0CCIRO~~ Rule ~~2800~~7300 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 and Proprietary Swap Transactions 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 Clearing Fund Deposit” – means the additional amount required of the Clearing Member in addition to the Clearing Fund deposit pursuant to Section A-606.

“Adjustment Committee” – has the meaning attributed thereto in Subsection A-902(2).

“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(~~401~~1).

“Applicable Underlying” – has the meaning attributed thereto in Section D-801.

“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, with respect to Core Products, an Approved Securities Intermediary approved by the Corporation to act in such capacity pursuant to Section A-224.

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

“Approved Processes” – means any CDCS 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 or authorized foreign 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~~Core Base Initial Margin or Swap Base Initial Margin, as applicable.

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

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

“**U.S. Broker-Dealer**” – means a broker-dealer registered as such with the SEC under the 1934 Act.

“**Business Day**” – means any day on which the Corporation is open for business, as published on its website from time to time. For greater clarity, for services related to Proprietary Swap Clearing, a “Business Day” means a Swap Business Day, unless otherwise specified by the Corporation.

“**Business Hours**” – means from 8 p.m. t-1 (ET) to the Close of Business the next day on any Business Day or Swap Business Day, as applicable.

“**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(910).

“**Calculation Date**” – in connection with a Proprietary Swap Transaction, has the meaning attributed thereto in Section D-801 and, otherwise, has the meaning attributed thereto in Subsection A-1005(5).

“**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 or the United States and in any other currency accepted by the Corporation.

“**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).

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

“CDCC Contacts” – has the meaning attributed thereto in Subsection A-206(2).

“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 Confirmation” – has the meaning attributed thereto in Section A-803.

“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.

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

“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 or DTC.

“CFTC” – means the U.S. Commodity Futures Trading Commission.

“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 type of 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, which are as follow:

(a) ~~a)~~ Client Account Individual,

(b) ~~b)~~ Client Account Omnibus.

“Client Account Individual” - means a type of Client Account that requires specific documentation to be signed between the Clearing Member and the Corporation, for one single Client.

“Client Account Omnibus” - means a type of Client Account that requires specific documentation to be signed between the Clearing Member and the Corporation for multiple Clients.

“Client Fixed Income Transactions” – has the meaning attributed thereto in Paragraph A-301(4)(d).

“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).

“Confidential Information” – has the meaning attributed thereto in Subsection A-210(2).

“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, OTCI~~ transactions and Proprietary Swap 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.

“Core Base Initial Margin” – means a component of the Margin Deposit required of each Clearing Member in respect of Core Products as calculated in accordance with the Risk Manual.

“Core Business” – means activities of the Corporation related to Core Products.

“Core Margin” – means any and all of the deposits delivered 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) pursuant to Rule A-7 Margin Requirements.

“Core Margin Deposit” – means, collectively,

- (a) any and all Securities, Financial Assets, Cash, Instruments, cheques, Underlying Interests, Underlying Interest Equivalents, Long Positions and Short Positions; and
- (b) any and all of the deposits delivered 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 Clearing Fund 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;

in each case, delivered 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 in respect of the Corporation’s Core Business.

“Core Margin Deposit Account” – means a Firm Margin Deposit Account or a Non-GCM Regime Margin Deposit Account or a GCM Regime Margin Deposit Account.

“Core Products” - means Futures, Options, Fixed Income and OTCI Transactions, other than Proprietary Swap Transactions, or any other product so designated by the Corporation.

“Core Tranche” – means in respect of each of the Clearing Fund and the Supplemental Liquidity Fund, the Tranche thereof that is determined and maintained in respect of Core Products.

“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).

“Counterclaims” – has the meaning attributed thereto in Subsection A-409(14).

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

“Crown” – means any of (i) the “Federal Crown”, which means **HerHis** Majesty the **QueenKing** in right of Canada, (ii) the “BC Crown”, which means **HerHis** Majesty the **QueenKing** in right of British Columbia, (iii) the “Alberta Crown”, which means **HerHis** Majesty the **QueenKing** in right of Alberta, (iv) the “Saskatchewan Crown”, which means **HerHis** Majesty the **QueenKing** in right of Saskatchewan, (v) the “Manitoba Crown”, which means **HerHis** Majesty the **QueenKing** in right of Manitoba, (vi) the “Ontario Crown”, which means **HerHis** Majesty the **QueenKing** in right of Ontario, (vii) the “Quebec Crown”, which means **HerHis** Majesty the **QueenKing** in right of Quebec, (viii) the “NB Crown”, which means **HerHis** Majesty the **QueenKing** in right of New Brunswick, (ix) the “NS Crown”, which means **HerHis** Majesty **the King** in right of Nova Scotia, (x) the “PEI Crown”, which means **HerHis** Majesty the **QueenKing** in right of Prince Edward Island, and (xi) the “Newfoundland Crown”, which means **HerHis** Majesty **the King** 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~~ Subsection 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~~sequence set out in the Default Manual for application of the amounts listed under Subsections A-1002(1)(a)(i) to (iii), inclusively and which are financial resources available to the Corporation ~~– during a Default Management Period.~~

“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 Paragraph~~ 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 Canadian depository receipt, a bond, a currency, a stock or economic index or any other asset.

“Designated Custodian” – has the meaning attributed thereto in Rule D-8.

“Designated Depository” – has the meaning attributed thereto in Rule D-8.

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

“Designated Financial Institution” - has the meaning attributed thereto in Rule D-8.

“Designated Maintenance Rating” – has the meaning attributed thereto in ~~Section Subsection~~ 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.

“**Disciplinary Committee**” – has the meaning attributed thereto in Subsection A-502(4).

“**DTC**” – means The Depository Trust Company, acting as Central Securities Depository in the U.S. or acting in any other capacity, or any successor thereof.

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

“**Effective Ratio**” – has the meaning attributed thereto in Section A-1B08.

“**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.

“**Eligible Basket**” – has the meaning attributed thereto in Section D-801.

“**Eligible Index**” – has the meaning attributed thereto in Section D-801.

“**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, Approved Depository, Designated Custodian, Designated Depository, 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, a Designated Custodian, Designated 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.

“**Equity Leg**” – has the meaning attributed thereto in Section D-801.

“**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**” – in connection with a Proprietary Swap Transaction, has the meaning attributed thereto in Section D-801, and otherwise, 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.

“**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.

“**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 or Proprietary Swap 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).

“FDIC” – means the U.S. Federal Deposit Insurance Corporation.

“Federal Reserve” – means the U.S. Board of Governors of the Federal Reserve System.

“Final Settlement Amount” – means the amount determined by the Calculation Agent in accordance with Subsection A-409(~~10~~11).

“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,
 - a. one of whose principal purposes is to provide liquidity support to local credit unions or financial services cooperatives.

“FINRA” – means the Financial Industry Regulatory Authority.

“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. The requirements of the GCM or Non-GCM Regime will not be applicable to ~~this account~~ these accounts.

“Firm Fixed Income Transactions” – has the meaning attributed thereto in Paragraph A-301(4)(d).



“Firm Margin Account” - means an account in which the Core Margin requirement is the aggregation of the Firm Accounts’ ~~Margin requirements pursuant to Rule A-7 Margin Requirements and the methodology set out in the Risk Manual.~~

“Firm Margin Deposit Account”—~~means an account in which the Deposit covers the Firm’s~~Core Margin requirements pursuant to Rule A-7 Margin Requirements and the methodology set out in the Risk Manual.

“Firm Margin Deposit Account” - means an account in which the Deposit covers the Firm’s Core Margin requirements pursuant to Rule A-7 Margin Requirements and the methodology set out in the Risk Manual.

“Firm Transactions” – means Transactions in respect of Core Products or Proprietary Swap Transactions affected by a Clearing Member for its own account or on behalf of an Affiliate.

“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.

“Floating Leg” – has the meaning attributed thereto in Section D-801.

“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 Subsection 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.



“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.

“GCM Declaration File” - File submitted each Business day in order to allow eligible positions declaration of each individual client within the Client Account Omnibus structure for the purpose of calculating the Core Base Initial Margin under the GCM Regime.

“GCM Regime or Gross Client Margin Regime” - means a regime that will be applicable to all the Open Positions on Futures and Futures Options and the related Core Margin requirement in Client Accounts and Market Maker Non-Firm Accounts. As such, the margin will be calculated in accordance with the Rule A7A-7 Margin Requirements and the methodology set out in the Risk Manual. The GCM Regime will exclude the Hedge Open Positions and Short Positions in Futures or Options for which they have deposited Securities held in specific Deposits in accordance with Sections A-212 and A-706 of the Rules.

“GCM Regime Margin Account” - means an account in which the Core Margin requirement is the aggregation of the Core Margin requirements pursuant to Rule A-7 Margin Requirements and the methodology set out in the Risk Manual for the Open Position eligible under the GCM Regime.

“GCM Regime Margin Deposit Account” - means an account in which the Deposit covers the GCM Regime Margin requirements pursuant to Rule A-7 Margin Requirements and the methodology set out in the Risk Manual.

“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.

“Hedge Open Position” - means Open Positions identified by Clearing Members as eligible to reduce the market risk, for a Client Account Individual or Market Maker Non-Firm Account.

“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.

“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.

“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.

“Intra-Day Swap Margin Call” – means the requirement to deposit supplementary Swap Margin, as determined by the Corporation in accordance with Section A-7A05, 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~~ CIRO.

“LCM RAD Net Gain” – has the meaning attributed thereto in ~~Section~~ Paragraph 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 Liquidating Settlement Account (CAD) and the Liquidating Settlement Account (USD), or either as the context may require.

“Liquidating Settlement Account (CAD)” – means the Canadian dollar 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 Core Margin Deposits, in accordance with Section A-402.

“Liquidating Settlement Account (USD)” – means the U.S. dollar 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 Swap 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” – means all Core Margin and Swap Margin.

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

~~(a) any and all Securities, Cash, Instruments, cheques, Underlying Interests, Underlying Interest Equivalents, Long Positions and Short Positions;~~

~~(a) any Core Margin Deposits 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 Swap Margin 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~~

~~(b) 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.~~

~~“Margin Deposit Account” means a Firm Margin Deposit Account or a Non-GCM Regime Margin Deposit Account or a GCM Regime Margin Deposit Account.~~

~~“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 type of 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, which are as follow:

- (a) ~~a)~~ Market Maker Firm Account,
- (b) ~~b)~~ Market Maker Non-Firm Account.



“Market Maker Firm Account” - means a Market Maker Account on which the Market Maker trades on behalf of the Firm. All the Rules applicable to a Firm Account (including the Rules related to the Margin) will be applicable in the same manner to a Market Maker Firm Account.

“Market Maker Non-Firm Account” - means a Market Maker Account on which the Market Maker does not trade on behalf of the Firm. All the Rules applicable to a Client Account under the GCM Regime or the Non-GCM Regime (including the Rules related to the Margin) will be applicable in the same manner to a Market Maker Non-Firm Account.

“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.

“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.

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

“Maturity Date” – in connection with a Proprietary Swap Transaction, has the meaning attributed thereto in Section D-801, and otherwise, means the date on which final obligations related to a Transaction are executed.

“Minimum Threshold” – means the quantity starting from which an OTCI (other than a Proprietary Swap Transaction) 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 Client Account Individual.

“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)(~~de~~); 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)(ed).

“Net Variation Margin Requirement” – has the meaning attributed thereto in Subsection D-607(3).

“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.

“NFA” – means the National Futures Association.

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

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

“Non-GCM Regime or Non-Gross Client Margin Regime” – means a regime that will be applicable to all accounts that are not subject to the GCM Regime or the Firm.

“Non-GCM Regime Margin Account” - means an account in which the Core Margin requirement is the aggregation of the Core Margin requirements pursuant to Rule A-7 Margin Requirements and the methodology set out in the Risk Manual for the Open Position eligible under the Non-GCM Regime.

“Non-GCM Regime Margin Deposit Account” - means an account in which the Deposit covers the Non GCM Regime Margin requirements pursuant to Rule A-7 Margin Requirements and the methodology set out in the Risk Manual.

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

“Notice” – has the meaning attributed thereto in Paragraph A-1A01(j).

“Notice Files” – has the meaning attributed thereto in Subsection A-206(2).

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

“OCC” – means the U.S. Office of the Comptroller of Currency.

“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, or, in the case of a Proprietary Swap Transaction, the position of an Equity Amount Payer or an Equity Amount Receiver, in each case, which has not expired, matured or terminated.~~

“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~~Subsection 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.

“Overnight Margin Call” – ~~means the requirement to deposit supplementary Margin, as determined by the Corporation in accordance with Section A-706 at any time the Corporation deems necessary during the Overnight Clearing Cycle, as such term is defined in the Operations Manual.~~

“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, but excluding any Proprietary Swap Transactions.

~~**“Overnight Margin Call”** – means the requirement to deposit supplementary Margin, as determined by the Corporation in accordance with Section A-705.1, at any time the Corporation deems necessary during the Overnight Clearing Cycle, as such term is defined in the Operations Manual.~~

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

“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.

“Porting” means the transfer of Risk Accounts associated with a suspended Clearing Member, including any position maintained in such account and any **Core** Margin Deposits held by the Corporation in respect of such account under the GCM Regime, to a Receiving Clearing Member as contemplated under Section ~~A401~~**A-401**(3)(b) of the Rules. Transferring by way of Porting is part of the risk mitigation tools to protect the Financial Assets and positions of Clearing Members client’s as contemplated in the Default Manual.

“Porting Base Initial Margin Collateral” - means the collateral value associated with the Base Initial Margin (including the Variation Margin for Options) for the Open Positions eligible for a transfer by way of Porting under the GCM Regime in accordance with ~~subsection~~**Paragraph** A-401(3)(b).

“Porting Coverage Threshold” - means the exposure limit assessed by CDCC and against which the Porting Base Initial Margin Collateral of the individual client Risk Account is compared to abandon the transfer by way of Porting process.

“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.

“Proprietary Account” – means the definition of Proprietary Account under CFTC Regulation 1.3.

“Proprietary Swap Clearing” – has the meaning attributed thereto in Section D-801.

“Proprietary Swap Transaction(s)” – has the meaning attributed thereto in Section D-801.

“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.

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

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

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

“Quotation Date” – has the meaning attributed thereto in Subsection A-409(11).

“RAD Net Gain” – has the meaning attributed thereto in ~~Section~~Paragraph 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.

“Receiving Clearing Member” - means a Clearing Member that:

- (i) was named by a client (as provided for in the Default Manual) to receive its Open Positions and the Porting Core Base Initial Margin Collateral in case its current Clearing Member becomes a suspended Non-Conforming Member in accordance with ~~Subsection~~Paragraph A-401(3)(b)
- (ii) immediately upon providing CDCC with its confirmation of accepting a client from a suspended Non-Conforming Member:
 - a) has provided CDCC with an irrevocable acceptance of the client and corresponding ported Risk Account;
 - b) becomes fully liable for authenticating the identity of the client requesting a transfer by way of Porting (including the client legal authority).

- (iii) and once CDCC confirms proceeding with the transfer by way of Porting of a client, will also be fully liable for all obligations related to the client ported Risk Account during and after the Default Management Period.

~~“Recovery Auction” – has the meaning attributed thereto in Subsection A-1007(1).~~

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

~~“Recovery Loss” or “Recovery Losses” –has the meaning attributed thereto in Section A-1002(1)-1004.~~

“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 SectionSubsection 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)” or “RAD” – has the meaning attributed thereto in Subsection A-1005(1).~~

~~“Reduced Amounts Distribution” or “RAD” – means Period” – has the Recovery Power defined under Sectionmeaning attributed thereto in Subsection A-1005(1)-2).~~

“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 (CO₂e) 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 (CO₂e) 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).

“Required Swap Margin” – has the meaning attributed thereto in Section D-801.

“Restricted Clearing Member” – has the meaning attributed thereto in Section A-412.

“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 Accounts” - means the level at which the Initial Margin requirement is calculated for Options, Futures, Unsettled Items and Fixed Income Transactions.

“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.



“SEC” – means the U.S. Securities and Exchange Commission.

“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 in Subsection~~ A-1A01(hj).

“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 or Swap Business Day, as applicable, the time on such Business Day or Swap Business Day as established by the Corporation in the Operations Manual and if no Business Day or Swap Business Day is specified, the time on the next Business Day or Swap Business Day, as applicable, 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, any Swap Net Settlement Amount and all other payments required in respect of such Business Day or Swap Business Day, as applicable, 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.

“SRO Clearing Member” – means a Clearing Member which is a member or approved participant in good standing with an exchange recognized in a Canadian province or a dealer member in good standing with CIRO.

“STA” – has the meaning attributed thereto in Paragraph A-224(1)(a).

“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.

“Supplemental Liquidity Contributions” – means any and all of the contributions required or made pursuant to Rule A-6A Supplemental Liquidity Fund.

“Supplemental Liquidity Fund” – means ~~the~~ fund established pursuant to Rule A-6A Supplemental Liquidity Fund.

“Swap Base Initial Margin” – means a component of the Margin Deposit required of each Clearing Member in respect of Proprietary Swap Transactions as calculated in accordance with the Risk Manual.

“Swap Business Day” – has the meaning attributed thereto in Section D-801.

“Swap Clearing Base Deposit” – has the meaning attributed thereto in Section A-601.

“Swap Clearing Member” – has the meaning attributed thereto in Section D-801.

“Swap Margin” – means any and all of the deposits delivered by or on behalf of a Clearing Member to the Corporation or another person (including the Designated Custodian, Designated Depository, or a Designated Financial Institution) pursuant to Rule A-7A Swap Margin Requirements.

“Swap Margin Deposit” – means, collectively,

- (a) any and all Securities, Financial Assets, Cash, Instruments with respect to Proprietary Swap Transactions; and
- (b) any and all of the deposits delivered pursuant to Rule A-6 Clearing Fund Deposits, Rule A-7A Swap Margin Requirements, Rule D-8 Clearing of Proprietary Swap Transactions, including Swap Margin, Base Deposits, Additional Clearing Fund Deposits and Variable Deposits, and any other form of deposit accepted from time to time by the Corporation;

in each case, delivered by or on behalf of a Clearing Member to the Corporation or another person (including the Designated Custodian, Designated Depository, or a Designated Financial Institution) for purpose of the performance of the obligations of the Clearing Member under the Rules in respect of Proprietary Swap Transactions.

“Swap Margin Fund Account” – means the account maintained by containing all Swap Margin deposited by such Clearing Member to CDCC further to entering into a Proprietary Swap Transaction, in respect to the Firm Margin Accounts for any of the following: (1) Swap Base Initial Margin, (2) Additional Margin for Market Liquidity Risk, (3) Additional Margin for Intra-Day Variation Margin Risk, (4) Additional Margin for Banking Holiday Risk, (5) Additional Margin for Capital Risk, (6) Additional Margin for Stress Test Risk, and (7) Additional Margin for Dividend Payment Risk; the whole in accordance with the Rule A-7A, the Risk Manual and the Operations Manual.

“Swap Net Settlement Amount” – has the meaning attributed thereto in Section D-801.

“Swap Tranche” – means in respect of each of the Clearing Fund and the Supplemental Liquidity Fund, the Tranche thereof that is determined and maintained in respect of Proprietary Swap Transactions.

“Tear-Up Value” – has the meaning attributed thereto in ~~Section~~ Subsection 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-Paragraph~~ A-409(~~4011~~)(c).

“Trade Confirmation” – in connection with a Proprietary Swap Transaction, has the meaning attributed thereto to in Section D-801, and otherwise means the official document issued to a Clearing Member which details the attributes of the OTCI transaction (other than a Proprietary Swap 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.

“Tranche” or “Tranches” – means the portion of the Clearing Fund and Supplemental Liquidity Fund, as applicable, related to each of the Core Business and the Proprietary Swap Transactions.



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

“Transaction Value” – has the meaning attributed thereto in ~~Subsection Paragraph~~ A-409(~~1011~~)(b).

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

“Uncovered Residual Credit Risk” or “URCR” – 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 URCR 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, of an OTCI or of an OTCI a Proprietary Swap Transaction. The Underlying Interest may be a commodity or a financial instrument such as a stock, a Canadian depositary receipt, 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.

“U.S. Bank” – means a bank chartered as such under the laws of the United States, or a state thereof.

“U.S. Bank Clearing Member” – means a Clearing Member that is a U.S. Bank.

“U.S. Futures Commission Merchant” – means a futures commission merchant registered as such under the U.S. Commodity Exchange Act and regulated by the CFTC.

“U.S. Person” – means the definition of U.S. Person under CFTC Regulation 23.23(a)(23).

“U.S. SRO Clearing Member” – means a Clearing Member that is a U.S. Broker-Dealer, U.S. Futures Commission Merchant or U.S. Swap Dealer which is in good standing under each applicable regulatory regime to which it is subject.

“U.S. Swap Dealer” – means a swap dealer registered as such under the U.S. Commodity Exchange Act and regulated by the CFTC.

“Valued Securities” – ~~means certain Securities which respect~~ has the meaning attributed thereto in Subsection A-707(3); certain eligibility criteria determined by the Corporation in the Risk Manual.

“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~~ in Subsection A-1008(1).

Rule A-1 A - MEMBERSHIP IN THE CORPORATION

Section A-1 A01- Eligibility for Membership

(a) In order to apply for membership and subject to Subsection A-1A01(~~b~~;d) in the case of a Limited Clearing Member, 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~~CIRO; 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 Swap Clearing Member, an applicant must:

- (i) meet one of the following eligibility requirements and be in good standing under each applicable regulatory regime to which it is subject:
 - (A) one of the eligibility requirements set out in Subsection A-1A01(a);
 - (B) be a U.S. Broker-Dealer;
 - (C) be a U.S. Bank;
 - (D) be a U.S. Swap Dealer; or
 - (E) be a U.S. Futures Commission Merchant;
- (ii) be a full member participant of the Designated Depositary; and
- (iii) either:

- (A) if a U.S. person, provide evidence satisfactory to the Corporation that the applicant has the status of “Qualified Derivatives Dealer (QDD)” under U.S. federal income tax laws; or
- (B) if a non-U.S. person, provide evidence satisfactory to the Corporation that the applicant has the status of “Qualified Derivatives Dealer (QDD)” under U.S. federal income tax laws or has or will have “effectively connected income (ECI)” under U.S. federal income laws in connection with Proprietary Swap Transactions.
- (c) An applicant that does not meet the eligibility requirements in Subsection A-1A01(a) shall meet any additional requirement that the Bank of Canada may reasonably require to assess the impact of the potential application.
- ~~(b)~~(d) 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.
- ~~(e)~~(e) 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)~~(f) 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)~~(g) 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)~~(h) A Clearing Member that intends to submit Futures Contracts on Carbon Dioxide Equivalent (CO₂e) 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)~~(i) 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)~~(j) The Corporation may in its sole discretion waive the requirements set forth in clauses ~~(e)~~, ~~(d)~~~~e~~, ~~(f)~~, or ~~(g)~~i 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 (or the Designated Depository) (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-1 ~~-A02~~ – 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, Proprietary Swap 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;
- (d) unless the applicable Entity is applying to become a Limited Clearing Member or a Swap Clearing Member, the applicant has deposited with the Corporation its initial deposit with respect to the Core Tranche of 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; ~~and~~
- (e) unless the applicable Entity is applying to become a Limited Clearing Member, the applicant has provided the Corporation with its initial Supplemental Liquidity Contributions to the Supplemental Liquidity Fund in the amount and at the time required by the Rules and the Risk Manual;
- (f) the Swap Clearing Member has deposited with the Corporation its initial deposit with respect to the Swap Tranche of 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;
- (g) the Swap Clearing Member has provided the Corporation with its initial Supplemental Liquidity Contributions to the Swap Tranche of the Supplemental Liquidity Fund in the amount and at the time required by the Rules; and
- (k) the Swap Clearing Member may only submit for clearing Bilateral Swap Transactions for those persons identified in the definition of Proprietary Account.

Section A-1 A03- 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~~request 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-1 A04- 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, contribution, 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-1 A05- 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-1 A06- 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-1 A07- 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-1 A08- 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-1 A09- 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; (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; or (c) the date on which the Corporation agrees to the withdrawal.
- (2) If the Withdrawal of a Clearing Member becomes effective while a Default Management period is ongoing; such withdrawal shall not occur and shall be postponed until the end of the Default Management Period, and the Clearing Member shall cease to be a Clearing Member on the date, as determined by the Corporation, on which the Clearing Member has satisfied all of its obligations toward the Corporation, or the date on which the Corporation agrees to the withdrawal.
- (3) Notwithstanding the provisions of ~~Section~~Subsection A-1A09(2), during the prior notice period referred to under ~~Section~~Subsection A-1A09(1), the Clearing Member shall be liable to the Corporation for:
 - (a) while the Clearing Member has outstanding positions, the obligations resulting from all Default Management Periods initiated during such prior notice period referred to under ~~Section~~Subsection A-1A09(1);



- (b) once all of the Clearing Member's positions have been closed, the obligations resulting from one (1) Default Management Period initiated after such close-out during the prior notice period referred to under ~~Section~~Subsection A-1A09(1).
- (4) The Corporation shall notify all Clearing Members upon receipt of a notice of withdrawal pursuant to Section A-1A09(1).
- (5) 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-1 A10- 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-1 A11- 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-1 B - LIMITED CLEARING MEMBERS MEMBERSHIP

Section A-1 B01- 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.

(5) No Supplemental Liquidity Fund Contribution

Subject to applicable law, a Limited Clearing Member shall not be required to make Supplemental Liquidity Contributions to the Supplemental Liquidity Fund.

Section A-1 B02- 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-1 **B03- 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-1 **B04- 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:

Designated Rating Organization	Option A	Option 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~~Section 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-1 ~~-B05-~~ 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:

Designated Rating Organization	Option A	Option B
DBRS Limited	BBB	A
Fitch Inc.	BBB	A
Moody's Canada Inc.	Baa2	A2

Standard & Poor's Rating Services (Canada)	BBB	A
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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-1 -B06- 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-1 -B07- 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 Section 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 Paragraph 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-1 **B08**- 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 **Core** 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 (or Swap Business Day, in the case of Swap Clearing Members) and 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) the client information corresponding with the Risk Account maintained by the Corporation under the GCM Regime, and the evidence that the relevant information



under ~~Subsection-Paragraph~~ A-401(3)(b) has been provided to the client in order to enable a transfer by way of Porting;

- (g) if in respect of any OTCI or Proprietary Swap Transaction the trade details as specified in the Trade Confirmation; and
 - (h) 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~~Subsection A-206(2) or in accordance with Subsection A-206(98) 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 (or Swap Business Day, in the case of Proprietary Swap Transactions) 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(98):
 - (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 Subsection A-206(2) or Subsection A-206(98), 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 or Swap Business Day, as applicable, 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 or Swap Business Day, as applicable.

For greater certainty, under Paragraph A-206(98)(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 or Swap Business Day, as applicable. 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 Approved Depository, any Designated Custodian, any Designated Depository, 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 Approved Depository, any Designated Custodian, any Designated Depository, 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 Approved Depository, any Designated Custodian, any Designated Depository, 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 Approved Depository, any Designated Custodian, any Designated Depository, 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, Designated Custodian or Designated Depository, as applicable.
- (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, if applicable, 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 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 or Proprietary Swap Transactions, 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~~ CIRO, 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~~ CIRO 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.
- (5) Notwithstanding Subsection A-301(2), a Swap Clearing Member must meet the following criteria:
- (a) If it is a Canadian Swap Clearing Member, have minimum capital equal to the greater of US\$100,000,000 or:
- (i) For an SRO Clearing Member, the minimum capital adequacy requirement adopted from time to time by CIRO;
 - (ii) For a Bank Clearing Member, the minimum capital adequacy requirement adopted from time to time by the Office of the Superintendent of Financial Institutions;
 - (iii) For a Financial Institution Clearing Member, the minimum capital adequacy requirement adopted from time to time by a Regulatory Body having jurisdiction over the Financial Institution Clearing Member and which is determined by the Corporation to be comparable to the capital adequacy requirements applicable to a Bank Clearing Member;
- (b) If it is a U.S. SRO Clearing Member, have minimum capital equal to the greater of US\$100,000,000 or the minimum capital adequacy requirement adopted from time to time by the CFTC, NFA, SEC or FINRA; or
- (c) If it is a U.S. Bank Clearing Member, have minimum capital equal to the greater of US\$100,000,000 or the minimum capital adequacy requirement adopted from time to time by the FDIC, Federal Reserve or OCC, as applicable

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~~CIRO).
- (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 U.S. SRO Clearing Member shall advise the Corporation immediately if such U.S. SRO Clearing Member fails to meet the minimum capital adequacy requirements that may be set from time to time by the CFTC, NFA, SEC or FINRA.
- (7) A U.S. Bank Clearing Member shall advise the Corporation immediately if such U.S. Bank Clearing Member fails to meet the minimum capital adequacy requirements that may be set from time to time by the FDIC, Federal Reserve or OCC, as applicable.
- ~~(6)~~(8) 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 U.S. SRO Clearing Member shall deliver to the Corporation one copy of such report as required and in the form prescribed by the CFTC, NFA, SEC or FINRA, as applicable demonstrating the U.S. SRO 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 CFTC, NFA, SEC or FINRA and promptly after such documents are provided to the CFTC, NFA, SEC or FINRA, as the case may be.
- (5) Each U.S. Bank Clearing Member shall deliver to the Corporation immediately one copy of such report as required and in the form prescribed by the FDIC, Federal Reserve or OCC, as applicable, demonstrating that the U.S. Bank 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 FDIC, Federal Reserve, or OCC, as applicable, and promptly after such documents are provided to the FDIC, Federal Reserve, or OCC, as applicable.
- (4)(6) 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 **Section** 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.

~~(+)~~ 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.



(3) -

Rule A-4 = ENFORCEMENT

Section A-401 - Action Against A Non-Conforming Or Suspended Clearing 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 ~~any~~ 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 Core Margin Deposits and/or Swap Margin Deposits, as applicable;
 - (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, (i) converting all amounts related to Core Products into Canadian currency and calculating one net amount (taking into account the Corporation's rights with respect to the Core Margin Deposit of such Clearing Member) owing to such Clearing Member by the Corporation or by such Clearing Member to the Corporation; in Canadian currency, and (ii) converting all amounts related to Proprietary Swap Transactions into the lawful currency of the United States and calculating one net amount (taking into account the Corporation's rights with respect to the Swap Margin Deposit of such Clearing Member) owing to such Clearing Member by the Corporation or by such Clearing Member to the Corporation in United States currency;
 - (d) transferring, whether by way of transfer (outside of the Porting process), by way of assignment, by way of termination, close-out and re-establishment or otherwise, any Client Account or Market Maker Non-Firm Account ~~in~~ 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 Core Margin Deposits and/or Swap Margin Deposits, as applicable, pursuant to Section A-607 ~~or~~ Section A-704 or Section A-7A04; 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 Core Margin Deposit (including, without limitation, Core Margin and the Core Tranche of the Clearing Fund) and Swap Margin Deposit (including, without limitation, Swap Margin and the Swap Tranche of the 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 by way of Porting (i) individual client Open Positions (at the Risk Account level) and (ii) the Porting Core Base Initial Margin Collateral in the respective GCM Regime Margin Accounts and GCM Margin Deposit Accounts to a Receiving Clearing Member. To effectively protect the individual clients of a suspended Non-Conforming Clearing Member, the Corporation will use all reasonable efforts to primarily take the action contemplated in Subsection-Paragraph A-401(3)(b) if it deems it is appropriate in the circumstances. In addition, each Clearing Member shall be required to inform its clients of the applicable requirements under Subsection-Paragraph A-401(3)(b) in accordance with the Corporation's procedures (including informing the client to name a Receiving Clearing Member). The application of this requirement and of Subsection Paragraph A-205-(1)(f) will be monitored by the Corporation; or
- (c) terminating, closing out or liquidating any or all of the Clearing Member Transactions or Open Positions, and upon such close out, (i) converting all amounts relating to Core Products 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- in Canadian currency and (ii) converting all amounts related to Proprietary Swap Transactions into the lawful currency of the United States and calculating one net amount (taking into account the Corporation's rights with respect to the Swap Margin Deposit of such Clearing Member) owing to such Clearing Member by the Corporation or by such Clearing Member to the Corporation in United States currency;
- (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 (i) with respect to proceeds of Core Margin Deposits, in a special Canadian dollar account, to be known as the Liquidating Settlement Account, (CAD), and (ii) with respect to proceeds of Swap Margin

Deposits, in a special United States dollar account, to be known as the Liquidating Settlement Account (USD), in each case for the purposes hereinafter specified. Core Margin Deposits in excess in GCM Margin Deposit Account and/or Non-GCM Margin Deposit Accounts shall not be subject to the control of the Corporation and shall be excluded from the Liquidating Settlement Account. (CAD).

- (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), Core 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 Core 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, subject to the application of Deposits in accordance with the Default Waterfall, 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 each case in respect of Core Products in the Firm

Account shall be credited by the Corporation to the Liquidating Settlement Account; (CAD);

- (d) monies owed to the Corporation in Settlement of Gains and Losses and/or Mark-To-Market Valuation in any account related to Core Products shall be withdrawn by the Corporation from the Liquidating Settlement Account; (CAD);
- (e) monies owed to the Corporation in Settlement Amounts for settlements in respect of Core Products not yet paid, will remain in the Liquidating Settlement Account (CAD) in the form of Core Margin Deposits until the next available Settlement Time consistent with the Core Product Transaction from which the Settlement Amounts were derived; and
- (f) monies payable to the suspended Clearing Member in Settlement Amounts for settlements in respect of Core Products not yet paid, will remain in the Liquidating Settlement Account (CAD) in the form of Core Margin Deposits until the next available Settlement Time consistent with the Core Product 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 with respect to Core Products shall be withdrawn from the suspended Clearing Member's Liquidating Settlement Account; (CAD); provided, however, that amounts payable to the Corporation in Settlement of Gains and Losses (i) 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; (CAD), and (ii) shall first be withdrawn from the funds available in a Core Margin Deposit Account. Amounts receivable by the suspended Clearing Member in Settlement of Gains and Losses and/or Mark-to-Market Valuation in respect of Core Products 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.~~ with respect to Core Products shall be credited to the suspended Clearing Member's Liquidating Settlement Account (CAD). Amounts payable to the Corporation as a result of any close-out of Proprietary Swap Transactions shall be withdrawn from the suspended Clearing Member's Liquidating Settlement Account (USD) in accordance with these Rules, the Risk Manual and the Default Manual. Amounts receivable by the suspended Clearing Member in Swap Net Settlement Amount in respect of Proprietary Swap Transactions as a result of a closing transaction effected by the Corporation or the transfer of an Open Position with respect to Proprietary Swap Transactions shall be credited to the suspended Clearing Member's Liquidating Settlement Account (USD). 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 and Market Maker Non-Firm 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 and Market Maker Non-Firm 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 Firm 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; ~~(CAD)~~; 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; ~~(CAD)~~; 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; ~~(CAD)~~. 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 applicable 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 applicable 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 (CAD) 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 (CAD).

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 applicable 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 applicable 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 applicable Liquidating Settlement Account. The Corporation shall pay such claims, to the extent funds are available, from the applicable 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 applicable 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) or Subsection D-815(3), 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 Core Products for Non-delivered Assets, it will be entitled to terminate, on a *pro rata* basis, Transactions related to Core Products 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 applicable Cash Settlement Amount by offsetting the corresponding payment obligation of CDCC under any such terminated Transaction related to Core Products against the corresponding payment obligation of the affected Clearing Member under the original Transaction related to Core Products 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’ or Swap Business Day, as applicable, 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), with respect to Core Products, 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 related to Core Products entered into in respect of Client Accounts, a Final Settlement Amount for all Transactions related to Core Products entered into in respect of Market Maker Accounts and a Final Settlement Amount for all Transactions related to Core Products entered into in respect of Firm Accounts, all in accordance with Subsection A-409(~~401~~1).

(9) Upon the effective designation of an Early Termination Date pursuant to Subsection A-409(7) with respect to Proprietary Swap Transactions, neither CDCC nor the relevant Clearing Member will be obliged to make any further payment or delivery under the applicable Proprietary Swap 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 Proprietary Swap Transactions, all in accordance with Subsection A-409(11).

~~(9)~~(10) 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)~~(11).

~~(10)~~(11) 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 for a particular product or group of products 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 for the same product or group of products 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 Core Products entered into in respect of Client Accounts, a Final Settlement Amount for all Transactions in respect of Core Products entered into in respect of Market Maker Accounts ~~and~~, a Final Settlement Amount for all Transactions in respect of Core Products entered into in respect of Firm Accounts ~~and a Final Settlement Amount for all Proprietary Swap Transactions.~~ The Final Settlement ~~Amount~~Amounts in respect of Core Products in respect of Client Accounts and ~~that the Final Settlement Amount in respect of Core Products~~ in respect of Firm Accounts will not be netted or set-off. Final Settlement Amounts in respect of Core Products and Final Settlement Amounts in respect of Proprietary Swap Products will not be netted or set-off.

(b) **“Transaction Value”** means, with respect to (i) any Transaction or group of Transactions that are related to Core Products or (ii) any Proprietary Swap Transactions or group of Proprietary Swap Transactions, as applicable, 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)~~(12) 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 Core Products in 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. The Final Settlement Amount in respect of Proprietary Swap Transactions, 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)~~(13) 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)~~(14) 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)~~(15)

- (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-~~1022~~ 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.

- (4) For services related to Proprietary Swap Clearing, CDCC and each Clearing Member also acknowledge that:
- (a) each of the Membership Agreement and the Rules constitutes a “master netting agreement” as defined in the U.S. Bankruptcy Code (the “Bankruptcy Code”) and a “security agreement or arrangement” or “other credit enhancement”, each as defined in the Bankruptcy Code, that forms a part of or is related to one or more “commodity contracts” or “swap agreements” within the meaning of the Bankruptcy Code;
 - (b) each Transaction constitutes a “swap agreement” or “commodity contract,” each as defined in the Bankruptcy Code;
 - (c) CDCC constitutes a “financial participant” and “swap participant”, each as defined in the Bankruptcy Code;
 - (d) each Clearing Member constitutes a “commodity broker” and “swap participant”, each as defined in the Bankruptcy Code;
 - (e) the remedies provided herein are the remedies referred to in Sections 362(b)(6), (17), and (27), 362(o), 556, 560, and 561(a) of the U.S. Bankruptcy Code and Section 5(b)(2)(C) of the Securities Investor Protection Act (15 USC 78eee(b)(2)(C)); and
 - (f) all pledges or transfers of cash, securities, or other property under or in connection with any Transaction, the Membership Agreement, or the Rules are “transfers” made “by or to (or for the benefit of)” a “commodity broker,” “financial participant”, or “swap participant” under or in connection with one or more “commodity contracts” or “swap agreements” within the meaning of Section 546 of the Bankruptcy Code.

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 at the end of the Business Day following the declaration by the Corporation that the Default Management Process is completed and:

- (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 Corporation has successfully reestablished a matched book.

Section A-412- Restricted Clearing Member

- (1) A Clearing Member who is unable to meet an Overnight Margin Call or breaches certain risk exposure thresholds during the Overnight Clearing Cycle (as such term is defined in the Operations Manual) may be deemed by the Corporation as a Restricted Clearing Member.
- (2) In addition to a measure made available to the Corporation under the Rules and the Application for Membership, where a Clearing Member is deemed by the Corporation as a Restricted Clearing Member as provided for in the Operations Manual, 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, which could result in. Clearing Member's trading access and give-up agreements on the Montreal Exchange being restricted, and orders of the Clearing Member and of its Clients being canceled; and
 - (b) sanctioning, reprimanding, fining or imposing a penalty on the Clearing Member.

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 or US\$250,000 in the case of violations relating to Proprietary Swap Transactions, 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 A-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-), or A-7A01(2), as applicable.
- (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 <u>and Proprietary Swap Transactions</u>)	● \$100,000 Cash.
(d) Fixed Income Transactions Clearing Base Deposit	● \$1,000,000 Cash.
<u>(e) Swap Clearing Base Deposit</u>	● <u>US\$100,000 Cash.</u>

- (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. The Clearing Fund is composed of two Tranches, being the Core Tranche which is in respect of the Corporation's Core Business and the Swap Tranche which is in respect of Proprietary Swap Transactions. The Core Tranche and the Swap Tranche are each sized independently of the other in accordance with the Risk Manual.

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 aggregate required deposit of each Clearing Member to the Clearing Fund with respect to both the Core Tranche and the Swap Tranche 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 Swap Clearing Base Deposit, if the Clearing Member has been accepted to clear Proprietary Swap Transactions; and
 - ~~(e)(f)~~ a Variable Deposit in respect of each Tranche of the Clearing Fund, which shall be equal to the amount by which (i) the Clearing Member's ~~contribution, required deposit to each Tranche of the Clearing Fund, calculated~~ in accordance with the methodology set out in the Risk Manual, ~~to the Corporation's Uncovered Residual Credit Risk~~ exceeds (ii) such Clearing Member's Base Deposits in respect of the applicable Tranche of the Clearing Fund.
- (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) by delivering a Clearing Fund statement which shall set out the increase in the Variation Deposit determined ~~amount by the Corporation in accordance with the Risk Manual in respect of the applicable Tranche or Tranches of the Clearing Fund~~ and the approved form ~~is of such~~ contribution to the Clearing Fund. The contribution of the additional Variable Deposits 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 Deposits 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 for each Tranche that shall list the current amount of such Clearing Member's deposits to the Clearing Fund with respect to such Tranche and the amount of deposit required of such Clearing Member, for such Tranche. Any surplus over and above the amount required or any deficit to be satisfied will also be shown. A Clearing Fund statement for each Tranche 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 for a Tranche shows a deficit, such Clearing Member shall satisfy the deficit by a deposit to the Corporation on the Business Day₂ (T+1) following the issuance of the Clearing Fund statement for such Tranche, by 10 a.m. (no same-day contribution).

Section A-607- Withdrawals

In the event that the Clearing Fund statement of a Clearing Member for a Tranche shows a surplus, the Clearing Member may request the withdrawal of such surplus from such Tranche 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) or A-7A01(2), as applicable, 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).~~ in accordance with the provisions of the Default Manual. 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), or A-7A01(2), as applicable, 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), or A-7A01(5), as applicable, 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(43), during a single Default Management Period with respect to a Tranche, the Corporation shall not, with respect to each Clearing Member that has not been suspended, apply more than 200% of the Clearing Fund deposit for such Tranche 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 or Swap Business Day, as applicable, 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 for such Tranche 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, in accordance with the Default Manual.
- (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-6 A - SUPPLEMENTAL LIQUIDITY FUND

Section A-6 A01 - Supplemental Liquidity Fund Maintenance and Purpose

- (1) The Corporation shall establish a Supplemental Liquidity 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 contributions in the Supplemental Liquidity Fund of the amounts from time to time required by the Corporation at its discretion, and determined as set forth in the Risk Manual. The Supplemental Liquidity Fund is composed of two Tranches, being the Core Tranche which is in respect of the Corporation's Core Business and the

Swap Tranche which is in respect of Proprietary Swap Transactions. The Core Tranche and the Swap Tranche are each sized independently of the other in accordance with the Risk Manual. The Supplemental Liquidity Fund shall be used for the purposes set out in Section A-6A07.

- (2) The Supplemental Liquidity Fund is constituted of the aggregate amount of the Supplemental Liquidity Contributions in respect of each Tranche required ~~by~~from each Clearing Member at the close of each calendar month. Unless otherwise specified, the ~~Supplement~~Supplemental Liquidity Fund shall not include any contributions made in excess of the amount of the Supplemental Liquidity Contributions required ~~by~~from each Clearing Member in accordance with the Risk Manual.
- (3) This Rule A-6A is not applicable to Limited Clearing Members.

Section A-6 A02- Amount of Supplemental Liquidity Contributions

Within a calendar month, if the Corporation determines that an increase to the Supplemental Liquidity Contributions is necessary to protect the Corporation from any existing or potential liquidity risks, the Corporation will notify ~~with the applicable Clearing Member(s) by delivering~~ a Supplemental Liquidity Fund statement ~~the concerned Clearing Member for such Tranche~~ which shall ~~set out the~~ increase in the ~~determined~~ amount of its Supplemental Liquidity Contributions to the Supplemental Liquidity Fund in respect of each Tranche as determined by the Corporation in accordance with the Risk Manual. The Supplemental Liquidity Contribution to the Supplemental Liquidity Fund by the concerned Clearing Member must be received by the Corporation on the following Business Day₂ (T+1) by 10 a.m. (no same-day contribution).

Section A-6 A03 - Supplemental Liquidity Fund Statement

On the first Business Day of each calendar month, the Corporation shall issue to each Clearing Member a Supplemental Liquidity Fund statement for each Tranche that shall list the current amount of such Clearing Member's Supplemental Liquidity Contributions to the Supplemental Liquidity Fund for such Tranche and the amount of contributions required of such Clearing Member- with respect to such Tranche. Any surplus over and above the amount required or any deficit to be satisfied with respect to a Tranche will also be shown. A Supplemental Liquidity Fund statement for each Tranche will also be issued intra-monthly if an increase to the Supplemental Liquidity Fund for such Tranche is necessary. The Supplemental Liquidity Contributions required by the Clearing Member to satisfy any deficit for a Tranche must be received by the Corporation on the following Business Day₂ (T+1) by 10 a.m. (no same-day contribution).

Section A-6 A04 - Additional Supplemental Liquidity Contributions

Whenever a Clearing Member's Supplemental Liquidity Fund statement for a Tranche shows a deficit, such Clearing Member shall satisfy the deficit by depositing a Supplemental Liquidity ~~Contributions~~Contribution to the Corporation on the Business Day₂ (T+1) following the issuance of the Supplemental Liquidity Fund statement for such Tranche, by 10 a.m. (no same-day contribution).

Section A-6 A05 - Withdrawals

In the event that the Supplemental Liquidity Fund statement of a Clearing Member for a Tranche 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-6 A06 - Form of Supplemental Liquidity Contributions

- (1) Supplemental Liquidity Contributions to the Supplemental Liquidity Fund shall be in the form of Cash. Contributions 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 Supplemental Liquidity Fund Contributions shall be deemed to be deposited with the Corporation at the time the Corporation accepts the Cash.

Section A-6 A07 - Application of Supplemental Liquidity Fund

- (1) Subject to Section A-6 A07(2), the Supplemental Liquidity Fund can be used by the Corporation to meet any liquidity obligations or exposures (such as mark-to market payments and settlements) suffered by the Corporation at any time, whether arising during or resulting from a Default Management Period or not; provided, however, that the Supplemental Liquidity Fund cannot be used in the allocation of, or for the payment of, residual credit losses or for general corporate purposes. Subject to the provisions of Subsection A-6A07(2), all amounts from the Supplemental Liquidity Fund used by the Corporation shall be paid back by the Corporation to the Supplemental Liquidity Fund as soon as practicable.
- (2) Without limiting the generality of Subsection A-6A07(1), (i) the Corporation shall be authorized to use a suspended Clearing Member's Supplemental Liquidity Contributions for the Core Tranche, as well as the Supplemental Liquidity Contributions required of all other Clearing Members for such Tranche, in order for the Corporation to meet any liquidity obligations or exposure suffered by the Corporation during a Default Management Period related to the Core Business and (ii) the Corporation shall be authorized to use a suspended Clearing Member's Supplemental Liquidity Contributions for the Swap Tranche, as well as the Supplemental Liquidity Contributions required of all other Clearing Members for such Tranche, in order for the Corporation to meet any liquidity obligations or exposure suffered by the Corporation during a Default Management Period; related to Proprietary Swap Transactions. For greater certainty, the Supplemental Liquidity Contributions for the Core Tranche are only available to meet any liquidity obligations or exposures relating to the Core Business and the Supplemental Liquidity Contributions for the Swap Tranche are only available to meet any liquidity obligations or exposures relating to Proprietary Swap Transactions. Subject to provisions of the Default Manual, all amounts from the Supplemental Liquidity Fund used by the Corporation shall be paid back by

- the Corporation to the Supplemental Liquidity Fund for such Tranche after the Default Management Period had ended, unless such amounts represent the Supplemental Liquidity Contributions of the suspended Clearing Member for such Tranche and were allocated by the Corporation to cover credit losses as part of the Default Waterfall.
- (3) Whenever the Corporation wishes to use any amounts from the Supplemental Liquidity Fund, the Corporation shall promptly notify each Clearing Member of the amount to be used and the reasons therefor.
 - (4) Without limiting the rights of the parties under Section A-6A05 and Subsections A-6A07(1) and (2), at the sole discretion of the Corporation, all Cash deposited with the Corporation as Supplemental Liquidity Contributions 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 to obtain liquidity for the purpose of assisting the Corporation to honour any liquidity obligations or exposure on a timely basis. The Corporation shall be deemed to continue to hold all Cash contributed to the Supplemental Liquidity Fund, regardless of whether the Corporation has exercised its rights under this Subsection A-6A07(4).
 - (5) Without limiting the rights of the Corporation under Subsections A-6A07(2) and A-6A07(4), during a single Default Management Period with respect to a Tranche, the Corporation shall not, with respect to each Clearing Member that has not been suspended, apply more than 200% of the Supplemental Liquidity Contributions for such Tranche required by such Clearing Member as of the date of the commencement of the Default Management Period to handle any liquidity obligations or exposure it may encounter during the applicable Default Management Period.
 - (6) Each Clearing Member grants to the Corporation a first ranking pledge and hypothec over all Supplemental Liquidity Contributions. This pledge shall secure the payment of any liquidity obligations or exposure that the Corporation may suffer from time to time. The Clearing Member shall execute and deliver (or cause to be executed and delivered) such 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.
 - (7) The Corporation may at its sole discretion grant a pledge or a hypothec over or transfer all property provided as Supplemental Liquidity Contributions 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 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 or a hypothec over or transfer such Clearing Member's Supplemental Liquidity Contributions before doing so with respect to the Supplemental Liquidity Contributions of other Clearing Members. The Corporation shall be deemed to continue to hold all Supplemental Liquidity Contributions regardless of whether the Corporation has exercised its rights under this Subsection A-6A07(7).



Section A-6 A08 - Making Good on Charges to Supplemental Liquidity Fund

Whenever the Corporation uses Supplemental Liquidity Contributions for a Tranche from the Clearing Members that have not been suspended, in accordance with Subsection A-6A07(2), such Clearing Members shall be liable to make good the deficiency, if any, in their contributions resulting from such use on the Business Day or Swap Business Day, as applicable, following the date that the Supplemental Liquidity Contributions are used (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 maximum of 200% of the amount of their Supplemental Liquidity Contributions for such Tranche required at the beginning of the Default Management Period as prescribed by the Rules.

Section A-6 A09 - Contributions refund

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 Supplemental Liquidity Contributions.



Rule A-7 - MARGIN REQUIREMENTS

Section A-701 — Core Margin Maintenance and Purpose

- (1) Prior to the Settlement Time on every Business Day, every Clearing Member shall be obligated to deposit Core 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 (other than Proprietary Swap Transactions), 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~~707 has been deposited with the Corporation. When determining whether additional Core Margin is required from a Clearing Member, the Corporation shall take into account, subject to Subsection A-704(2), all Core 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 Core Margin Deposit (including, without limitation, Core Margin and the Core Tranche of the Clearing Fund), subject to Subsection A-701(3), and in accordance with the Default Manual, 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) as provided in the Default Manual in respect of any obligations of such Non-Conforming Member in respect of Proprietary Swap Transactions; or
 - ~~(g)~~(h) 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 Core Margin and the Core Tranche of the 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 the Core Tranche of the 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, Core 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 Core 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 Margin Deposits as securing the obligations in respect to each of the corresponding Margin Deposit Account. 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 Core 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 Core 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 Core 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 Core 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 with respect to Core Products the reports which shall show the amount of Core Margin required to be deposited by virtue of the Clearing Member's positions. ~~in respect of Core Products.~~ All Core 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 Core Margin required to be deposited, so that the Core Margin requirements are met before Settlement Time each Business Day.

Section A-704- Withdrawals of Core Margin

- (1) Subject to Subsection A-704(2), in the event that on any particular day the amount of a Clearing Member's Core 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 Core 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 Core Margin requirements in respect of a Client Account or Market Maker Account. If a Clearing Member has excess Core 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 Core Margin requirements in respect of a Firm Account; provided, however, that if the Clearing Member does not identify its Core Margin Deposits with respect to

each of its accounts, the Corporation shall apply the Core Margin deposited by a Clearing Member at the Core Margin Deposit Account level using the following rule: if a Clearing Member has excess Core Margin deposited in respect of a Firm Margin Deposit Account, the Corporation shall be entitled to apply such excess (or a portion thereof) as is necessary to meet the Core Margin requirements in respect of a GCM Regime Margin Deposit Account and a Non-GCM Regime Margin Deposit Account. If a Clearing Member has excess Core Margin deposited in respect of the GCM Regime Margin Deposit Account or the Non-GCM Regime Margin Deposit Account, the Corporation shall not be entitled to apply such excess (or a portion thereof) to meet the Core Margin requirements in respect of any other Margin Deposit Account. Excess Core Margin will be identified and monitored by the Corporation.

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 Core 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 Core Margin, the Corporation shall be entitled, upon determining that supplementary Core Margin is required in accordance with ~~paragraph~~Subsection (2) above, immediately to apply such portion of the excess Margin as is necessary to meet the supplementary Core 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 Core Margin required. Such supplementary Core 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 Core Margin deposits, shall be reflected on the Daily Settlement Summary Report on the following Business Day.

Section A-706 ~~Section A-705.1~~- Overnight Margin Calls

- (1) The Corporation may perform Overnight Margin Calls and require the deposit of supplementary Core Margin (other than Margin required pursuant to Rule D-607) by any Clearing Member in any account at any time during the Overnight Clearing Cycle (as such term is defined in the Operations Manual) 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.
- (2) Subject to Subsection A-704(2), if a Clearing Member has excess Core Margin, the Corporation shall be entitled, upon determining that supplementary Core Margin is required in accordance with ~~paragraph~~Subsection (1) above, immediately to apply such portion of the excess Margin as is necessary to meet the supplementary Core 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 Core Margin required. Such supplementary Core 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 Core Margin deposits, shall be reflected on the Daily Settlement Summary Report on the following Business Day.

Section A-707- Underlying Interest and Underlying Interest Equivalent

Clearing Members shall NOT be required to deposit Core 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~~**708** equal in value to the aggregate current value (which for the purposes of this Section A-~~706~~**707** 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 **Core** Margin requirements on the Underlying Interest or Underlying Interest Equivalent as determined by the Corporation.

Section A-708- Eligible Collateral

- (1) **Core** 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:
 - (a) 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.

- (b) 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.
 - (c) 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~~~~708~~(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.
 - (d) The Debt Securities shall be deemed to be deposited with the Corporation at the time the Corporation accepts the Debt Securities as Core 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.
 - (e) Valued Securities – In addition to the Underlying Interest and Underlying Interest Equivalent which may be deposited under Section A-~~706~~~~707~~, 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 Core Margin.
- (2) 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-7A – SWAP MARGIN REQUIREMENTS

Section A-7A01– Swap Margin Maintenance and Purpose

- (1) Prior to the Settlement Time on every Swap Business Day, every Swap Clearing Member shall be obligated to deliver Required Swap Margin as determined by the Corporation in accordance with the Swap Margin requirement methodology set out in the Risk Manual, in respect of all Proprietary Swap Transactions entered into by the Swap Clearing Member and outstanding on the Calculation Date relating to such Swap Business Day, with the Corporation. When determining whether additional Swap Margin is required from a Swap Clearing Member, the Corporation shall take into account all Swap Margin delivered by the Swap Clearing Member and not returned by the Corporation to the Swap Clearing Member.
- (2) The Corporation shall apply the suspended Non-Conforming Member's Swap Margin Deposit (including, without limitation, Swap Margin and the Swap Tranche of the Clearing Fund), subject to Subsection A-7A01(3), to the discharge of:
 - (a) the Non-Conforming Member's obligation with respect to any Proprietary Swap 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 any Proprietary Swap Transaction 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 Proprietary Swap Transactions;
 - (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 any Proprietary Swap Transaction; or
 - (f) any other situation determined by the Board.
- (3) Each Swap Clearing Member grants to the Corporation a first ranking pledge over all property (including without limitation Swap Margin and the Swap Tranche of the Clearing Fund) that constitutes Swap 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 Swap Clearing Member of all of its obligations to the Corporation and, to the extent such pledge relates to the Swap Tranche of the Clearing Fund, 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. The Swap 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 Swap Clearing Member; provided that the failure by the Corporation to request or by the Swap 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, without limiting the right of the Corporation to invest the Swap Margin Deposits in the form of cash under Subsections A-608(1) and A-7A07(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 Swap Margin Deposit by a Swap 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-7A01(2), the Corporation may at its sole discretion grant a pledge over or transfer all property deposited as Swap Margin Deposit (including, without limitation, Swap Margin and Swap Tranche of the Clearing Fund) by a Swap 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 Swap Clearing Member as being a suspended Swap Clearing Member. In such circumstances, the Corporation shall grant a pledge over or transfer such Swap Clearing Member's Swap Margin Deposits before doing so with respect to the Swap Tranche of the Clearing Fund deposits of other Swap Clearing Members, in accordance with Subsection A-609(4). The Corporation shall be deemed to continue to hold all Swap Margin Deposits regardless of whether the Corporation has exercised its rights under this Subsection A-7A01(5).
- (6) Any account or sub-account of a Swap Clearing Member with the Corporation that reflects Financial Assets deposited with the Corporation by or on behalf of such Swap Clearing Member for Swap 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-7A02 - Discretionary Swap Margin Rule

The amount of Swap Margin which may be required from a Swap Clearing Member pursuant to this Rule A-7A 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-7A03 - Daily Swap Margin Activity

- (1) Each Swap Business Day, the Corporation shall make available to each Swap Clearing Member the reports which shall show the Required Swap Margin in respect of the Swap Clearing Member's positions under Proprietary Swap Transactions as set out under the Operations Manual and the Risk Manual. All Required Swap Margin shall be satisfied by the applicable Settlement Time on each Swap 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 Swap Clearing Member, it shall be the responsibility of that Swap Clearing Member to ascertain from the Corporation the amount of Required Swap Margin to be delivered by that Swap Clearing Member so that the Swap Margin requirements are met before the Settlement Time each Swap Business Day.

Section A-7A04 - Withdrawals of Swap Margin

In the event that on any particular day the amount of a Swap Clearing Member's Swap Margin Fund Account exceeds the Required Swap Margin on such day pursuant to this Rule A-7A, the Corporation shall authorize the withdrawal of the amount of the excess upon the submission to the Corporation, by such Swap Clearing Member during the hours specified by the Corporation, of a withdrawal request in the form prescribed by the Corporation provided that the Swap Clearing Member shall provide the Corporation with sufficient prior notice of such withdrawal request as set out in the Operations Manual.

Section A-7A05 - Intra-Day Swap Margin Calls

- (1) Section 2 of the Operations Manual specifies the time of the Intra-Day Swap Margin Calls.
- (2) The Corporation may also perform additional Intra-Day Swap Margin Calls and require the delivery of supplementary Swap Margin by any Swap Clearing Member in any account at any time during any Swap Business Day which the Corporation, in its sole discretion, considers necessary or advisable to reflect changes during such day in the price level of any Eligible Basket or Eligible Index in order to protect the Corporation, Swap Clearing Members or the public.
- (3) If a Swap Clearing Member has excess Swap Margin, the Corporation shall be entitled, upon determining that supplementary Swap Margin is required in accordance with Subsection (2) above, immediately to apply such portion of the excess Margin as is necessary to meet the supplementary Swap Margin requirements. The Corporation shall notify the Swap Clearing Member as soon as practicable of such application. If there is no excess Swap Margin then on deposit, the Corporation will notify the Swap Clearing Member of the amount of supplementary Swap Margin required. Such supplementary Swap Margin shall be deemed to be owing upon a Swap Clearing Member receiving notice thereof and shall be delivered by the Swap Clearing Member within one hour of the Swap 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 Swap Margin deposits, shall be reflected on the Daily Settlement Summary Report on the following Swap Business Day.

Section A-7A06 - Settlement of Required Swap Margin

- (1) Each Swap Clearing Member is responsible for ensuring that there are sufficient funds and/or Securities, as applicable, in respect of the Proprietary Swap Transactions with the Designated Custodian, Designated Depository, or transferred to a Designated Financial Institution, as applicable, to satisfy its Required Swap Margin obligations as they become due.
- (2) If the Corporation does not have sufficient liquidity to pay all the Swap Net Settlement Amount it owes to Swap Clearing Members on a given Settlement Date, the Corporation shall fail to pay pro rata among such Swap Clearing Members and that event shall constitute a Payment Default trigger under Paragraph A-409(5)(a) in respect of the affected Swap Clearing Members.



Section A-7A07 - Eligible Collateral

- (1) Required Swap Margin may be fulfilled by depositing or transferring, 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:
 - (a) Cash – Swap Clearing Members may deposit U.S. Cash by way of an irrevocable funds transfer to the Corporation. Funds 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 Swap 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.
 - (b) Debt – Swap Clearing Members may deposit with the Corporation Debt Securities. The Corporation establishes, reviews on a regular basis and publishes the list of eligible Debt Securities on its web site.
 - (c) 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-7A07(1) shall be determined on the close of each Swap 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-Swap Business Day, and the data supply service does not provide a market value for such day, the market value on the immediately preceding Swap 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.
 - (d) Debt Securities shall be deemed to be deposited with the Corporation at the time the Corporation accepts the Debt Securities as Swap Margin. All interest or gain received or accrued on such Debt Securities prior to any sale or negotiation thereof shall belong to the depositing Swap Clearing Member and such interest will be paid to such depositing Swap Clearing Member by the relevant issuer.
 - (e) Valued Securities – Swap Clearing Members may deposit with the Corporation certain Valued Securities. The Valued Securities shall be deemed to be deposited with the Corporation at the time the Corporation accepts the Valued Securities as Swap Margin.
- (2) 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 Swap 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, Core Margin and Swap Margin obligations and obligations in respect of the Core Tranche and the Swap Tranche of the 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) in respect of Core Products, 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) the Corporation shall net payments relating to Proprietary Swap Transactions in accordance with Section D-815(3) and for greater certainty, the Swap Net Settlement Amount shall not be netted against the Required Swap Margin;
 - ~~(b)~~(c) subject to Subsection A-704(2), the Corporation shall have the right to net Core Margin requirements, other than the Net Variation Margin Requirement under Section D-607, owing by a Clearing Member in respect of one product constituting a Core Product on such Business Day against excess Core Margin delivered by such Clearing Member and available in respect of another product constituting a Core Product on such Business Day such that Core 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)~~(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 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)~~(e) 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 ~~(+)~~ 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 ~~(+)~~ 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.

~~(5)(6)~~ Notwithstanding anything else in this Section A-801, payment obligations and delivery obligations in respect of Core Products will not be netted against payment obligations and delivery obligations in respect of Proprietary Swap Transactions at any time prior to a Clearing Member having become a Non-Conforming Member.

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 Paragraph 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 Subsection 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~~ Subsections 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 Paragraph~~ 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 Paragraph~~ 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 other than Proprietary Swap Transactions.

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

“**Similar Instruments**” – means 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 such~~ 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 (10) of the Section A-902 or which may be set forth as interpretations and policies under this Section A-902, it shall be the general rule that adjustments on Securities Options, as defined in Section B-601, where the Underlying Interest is a class of Canadian depositary receipt, shall reflect such adjustments made by the issuer of such Canadian depositary receipt.
- (12) Notwithstanding the general rules set forth in Subsections (3) through (11) 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, subject to approval by the Board, 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 resources available through the following amounts (which shall collectively be referred to as the “Default Waterfall”):; or
 - ~~(i) the suspended Clearing Member’s Margin Deposit (including, without limitation, deposits required or made as Margin and Clearing Fund) and Supplemental Liquidity Contributions;~~
 - ~~(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 or Swap Business Day, as applicable, 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 or Swap Business Days, as applicable, 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 paragraphSubsection 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 or Swap Business Day, as applicable, 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 paragraphSubsection 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~~an 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.
 - (d) In respect of all Proprietary Swap Transactions to which a Clearing Member is a party on a Calculation Date, the Swap Net Settlement Amount which was required in respect of a Proprietary Swap Transaction on the Calculation Date.
- (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 or Swap Business Day, as applicable, 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 (i) a net Retained Amount with respect to Core Products 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 and (ii) a net Retained Amount with respect to Proprietary Swap Transactions by aggregating the Qualified Amount in respect of all Proprietary Swap Transactions, in each case, 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 (other than Proprietary Swap 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 (other than Proprietary Swap 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 (other than Proprietary Swap 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~~ available pursuant to the Default Waterfall and the Retained ~~Amount~~ Amounts, 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 in respect of Core Products 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 in respect of Core Tranche required at the beginning of the Default Management Period by the aggregate amount of Clearing Fund deposits for the Core Tranche required at the beginning of the Default Management Period of all Clearing Members other than the suspended Clearing Members.
- ~~(2)~~(3) The Corporation shall determine the total amount of the Recovery Loss Cash Payment in respect of Proprietary Swap Transactions 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 in respect of the Swap Tranche required at the beginning of the Default Management Period by the aggregate amount of Clearing Fund deposits for the Swap Tranche required at the beginning of the Default Management Period of all Clearing Members other than the suspended Clearing Members.
- ~~(3)~~(4) The Corporation shall notify each Clearing Member that is not a suspended Clearing Member of the amount payable by such Clearing Member as a Recovery Loss Cash Payment in respect of each of Core Products and Proprietary Swap Transactions.
- ~~(4)~~(5) 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 for such Tranche required at the beginning of the Default Management Period.
- ~~(5)~~(6) ~~The~~ A Recovery Loss Cash Payment shall be paid by each Clearing Member no later than the first Settlement Time on the Business Day or Swap Business Day, as applicable, 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)~~(7) 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)~~(8) The Corporation shall (i) use the Recovery Loss Cash Payment Payments in respect of the Core Tranche of the Clearing Fund after exhausting the ~~funds~~ resources available to the Corporation as part of the Default Waterfall and the Retained ~~Amount~~ Amounts in respect of Core Products for the sole purpose of satisfying or otherwise settling Recovery Losses incurred by the Corporation in connection with the Recovery Event in respect of Core Products, and (ii) use the Recovery Loss Cash Payments in respect of the Swap Tranche of the Clearing Fund after exhausting the resources available to the Corporation as part of the Default Waterfall and the Retained Amounts in respect of Proprietary Swap Transactions for the sole purpose of satisfying or otherwise settling Recovery Losses incurred by the Corporation in connection with the Recovery Event in respect of Proprietary Swap Transactions.

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 suspended Clearing Member's Fixed Income Transactions ~~and/or Proprietary Swap Transactions~~ (a "Recovery Auction").
- (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 and Proprietary Swap 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 and in the Default Manual.
- (2) The Corporation may implement Voluntary Contract Tear-Up for any Futures, Options ~~or~~, Over-the-Counter Instruments or Proprietary Swap Transactions cleared by the Corporation.
- (3) On the Business Day or Swap Business Day, as applicable, 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 or Swap Business Day, as applicable, in respect of any of the suspended Clearing ~~Member~~ Member's Open Positions which have not been terminated. At the end of that same Business Day or Swap Business Day, as applicable, 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, provided that for Proprietary Swap Transactions, the suspended Clearing Member's Open Position can only be torn-up with the original counterparty of such Proprietary Swap Transaction. At the Close of Business on that same Business Day or Swap Business Day, as applicable, 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 the Default Manual, 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~~Futures 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~~Options 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 or Proprietary Swap 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, for Fixed Income Transactions or the Swap Net Settlement Amount pursuant to Rule D-8 for Proprietary Swap Transactions, as applicable. The Corporation shall terminate any other outstanding payment or transfer obligations in respect of all the Fixed Income Transactions or Proprietary Swap 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~~Paragraph 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~~Paragraph 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.
 - (d) The Corporation shall then calculate for each Clearing Member, in respect of all Proprietary Swap Transactions which the Clearing Member has agreed to terminate, the Clearing Member’s final Swap Net Settlement Amount associated with the Open Positions which have been terminated. Such Swap Net Settlement Amount shall be

required to be deposited by the usual Settlement Time for the Swap Net Settlement Amount.

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~~Amounts 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~~Amounts 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~~Amounts 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~~Amounts 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).

[...]

RULE D-8 - CLEARING OF PROPRIETARY SWAP TRANSACTIONS

The Sections of this Rule D-8 are applicable only to the clearing of Proprietary Swap Transactions by the Corporation.

Section D-801 - Definitions

Notwithstanding Section A-102, for the purposes of Proprietary Swap Clearing, the following terms are defined as follows:

“Acceptable Intermediary” – means a qualified entity that is identified on the TRS Portal as an “Acceptable Intermediary” that is permitted to submit Proprietary Swap Transactions on a Swap Clearing Member’s behalf.

“Actual/360” – means the actual number of days since the last Settlement Date for which payment was made under a Proprietary Swap Transaction divided by 360.

“Affected Share” – means a Basket Share of an Issuer which is subject to a Corporate Action or an Extraordinary Event.

“Affected Swap Clearing Member” – means a Swap Clearing Member which is party to a Proprietary Swap Transaction with an Applicable Underlying with Affected Shares or that is subject to an Index Adjustment Event, as applicable.

“Amendment Effective Date” – has the meaning set out in Section D-806.

“Announcement Date” – means (i) in the case of an Index Disruption or Index Cancellation, the date of the first public announcement by the Eligible Index Sponsor of any adjustment or cancellation as described in Section D-814(2) that leads to the Index Disruption or Index Cancellation, (ii) in the case of an Index Modification, the Swap Business Day immediately prior to the effective date of the Index Modification, (iii) in the case of a Nationalization, the date of the first public announcement to nationalize (whether or not subsequently amended) that leads to the Nationalization, (iv) in the case of an Insolvency, the date of the first public announcement of the institution of a proceeding or presentation of a petition or passing of a resolution (or other analogous procedure in any jurisdiction) that leads to the Insolvency, and (v) in the case of a Delisting, the date of the first public announcement by the relevant Exchange that the Basket Shares will be subject to the Delisting.

“Applicable Underlying” – means, with respect to a Proprietary Swap Transaction, each Basket Share or Eligible Index related to the Equity Leg of such Proprietary Swap Transaction.

“Basket Share” – means each share included in an Eligible Basket.

“Bilateral Swap Transaction” – means the terms of a bilateral over-the-counter equity total return swap transaction relating to a single Eligible Index or an Eligible Basket submitted for Proprietary Swap Clearing in accordance with this Rule D-8 on behalf of two Swap Clearing Members pursuant to which one Swap Clearing Member agrees to act as Equity Amount Payer and the other Swap Clearing Member agrees to act as Floating Rate Payer.

“Calculation Date” – means, with respect to a Proprietary Swap Transaction, each Exchange Business Day during the Term, with the first Calculation Date for a Proprietary Swap Transaction commencing on the Exchange Business Day immediately following the Trade Date.

“Cash Consideration Amount” – has the meaning set out in Section D-814(2).

“Cash Distribution” – has the meaning set out in Subsection D-807.1(1).

“Corporate Action” – means a Cash Distribution, a Share Distribution, a Share Split, a Share Consolidation or a Rights Issue.

“Corporate Action Policy” – means the corporate action policy for Proprietary Swap Clearing adopted by the Corporation and published on the TRS Webpage from time to time.

“Corporate Action with Options” – means a Corporate Action for which the shareholders of an Issuer can choose between options, failing which the Issuer or the market provides for a default option.

“Currency Business Day” – means a day on which commercial banks are open for business in the principal financial centre of the currency of such payment. In the case of the lawful currency of the United States of America, any day on which the United States Federal Reserve System or Federal Reserve Bank of New York are open shall be a Currency Business Day.

“Daily Equity Payment Obligation” – means in respect of all Proprietary Swap Transactions for each Swap Clearing Member on a Settlement Date, the net amount owing by or to the Corporation in respect of the Equity Legs of all such Proprietary Swap Transactions, provided that, for greater certainty, the Daily Equity Payment Obligation does not include any Swap Margin.

“Daily Floating Payment Obligation” – means in respect of all Proprietary Swap Transactions for each Swap Clearing Member on a Settlement Date, the net amount owing by or to the Corporation in respect of the Floating Legs of all such Proprietary Swap Transactions, provided that, for greater certainty, the Daily Floating Payment Obligation does not include any Swap Margin.

“Day Count Convention” – means, with respect to a Proprietary Swap Transaction, Actual/360.

“Delisting” – means, in respect of a Basket Share, when the relevant Exchange on which the Basket Share is listed and traded announces that pursuant to the rules of such Exchange, the Basket Share ceases (or will cease) to be listed, traded or publicly quoted on such Exchange for any reason (other than via a Transformation Event) and are not immediately re-listed, re-traded or re-quoted on an Exchange or quotation system located in the same country as such Exchange, and included in the relevant Eligible Index.

“De-merger” – means when an Issuer undergoes a corporate restructuring by subdividing, selling or distributing all, substantially all, or a material portion of assets or operations into components or separate legal entities to operate independently or be divested, including by way of a Spin-off.

“Designated Custodian” – means such regulated financial institution or trust company published on the TRS Webpage from time to time as a “Designated Custodian” by the Corporation where the Corporation has an account in its name.

“Designated Depository” – means DTC or such other regulated financial institution or trust company published on the TRS Webpage from time to time as a “Designated Depository” by the Corporation where assets pledged to the Corporation as Swap Margin are held in an account in the name of the Corporation.

“Designated Financial Institution” – means a financial institution, regulated by the OCC, published on the TRS Webpage from time to time as a “Designated Financial Institution” by the Corporation where cash is held in an account in the name of the Corporation.

“Dividend Amount” – means, in respect of an Affected Share, the Ex Amount multiplied by the number of Basket Shares that are Affected Shares in the Eligible Basket underlying the Proprietary Swap Transaction.

“Dividend Payment Date” – has the meaning set out in Subsection D-807.1(1).

“Dividend Period” – means, with respect to a Proprietary Swap Transaction where the underlying includes an Affected Share, the period that commences on, but excludes, the Trade Date and ends on, and includes, the Maturity Date, or if such Proprietary Swap Transaction is terminated early, the Swap Business Day prior to the last Settlement Date for such Proprietary Swap Transaction.

“Early Termination Option” – means the ability of the Corporation or a Swap Clearing Member party to a Proprietary Swap Transaction to unilaterally terminate a Proprietary Swap Transaction prior to its Maturity Date, as such option is submitted in the Economic Terms for such Proprietary Swap Transaction.

“Early Unwind Date” – has the meaning set out in Section D-814(2).

“Economic Terms” – means the transactional details of a Proprietary Swap Transaction as set out in Section D-803(1).

“EFFR Rate” – means the effective federal funds rate published by the Federal Reserve Bank of New York on each Swap Business Day.

“Eligible Basket” – means a collection of shares (a)(i) comprised of 10 or more Eligible Shares, (ii) of which no Eligible Share is weighted at 30% or more, (iii) of which the five most heavily weighted Eligible Shares are weighted at no more than 60% in the aggregate, and (iv) the lowest weighted Eligible Shares comprising in the aggregate 25% of the weighting of the Eligible Basket have a minimum aggregate dollar value of average daily trading volume (“ADTV”) over the preceding 6 full calendar months of US \$50 million or more (or in the case of an index with more than 15 Eligible Shares, US \$30 million or more), or (b)(i) comprised of 9 or more Eligible Shares, (ii) of which no Eligible Share is weighted at 30% or more, (iii) all of the Eligible Shares are registered under Section 12 of the 1934 Act, and (iv) each Eligible Share is one of the 750 securities with the largest market capitalization and one of the 675 securities with the largest dollar value of ADTV over the preceding 6 full calendar months among the 1934 Act securities. For the avoidance of doubt, an Eligible Basket cannot meet the definition of a “narrow-based securities index” under Section 3(a)(55) of the 1934 Act and the rules of the SEC thereunder.

“Eligible Index” – means (i) the S&P 500® Index, a product of S&P Dow Jones Indices LLC, (ii) the Russell 1000 Index, a product of FTSE International Limited and Frank Russell Company, members of London Stock Exchange Group plc., and (iii) such other index designated as an “Eligible Index” on the TRS Webpage from time to time by the Corporation.

“Eligible Index Sponsor” – means, (i) with respect to the S&P 500 Index, S&P Dow Jones Indices LLC, (ii) with respect to the Russell 1000 Index, FTSE International Limited and Frank Russell Company and (iii) with respect to any other Eligible Index, as such other index sponsor designated as an “Eligible Index Sponsor” on the TRS Webpage from time to time by the Corporation.

“Eligible Shares” – means shares denominated in the lawful currency of the United States of America which are included by the Eligible Index Sponsor in an Eligible Index.

“Equity Amount” – means, in respect of a Calculation Date with respect to each Applicable Underlying in connection with a Proprietary Swap Transaction, the product of the Equity Notional Amount as determined on such Calculation Date multiplied by the Rate of Return in respect of such Calculation Date.

“Equity Amount Payer” or “Floating Rate Receiver” – means, in respect of a Swap Clearing Member, such Swap Clearing Member who is the equity amount payer under a Proprietary Swap Transaction and who becomes the equity amount payer to the Corporation upon acceptance of the Proprietary Swap Transaction by the Corporation, and in respect of the Corporation, the Corporation when it has assumed the position of the equity amount payer under a Proprietary Swap Transaction pursuant to Section D-805(1). The term “Equity Amount Payer” will be used when referring specifically to the Equity Leg of a Proprietary Swap Transaction, whereas the term “Floating Rate Receiver” will be used when referring specifically to the Floating Leg of a Proprietary Swap Transaction.

“Equity Leg” – means, with respect to a Proprietary Swap Transaction, the part of a Proprietary Swap Transaction where the payment is based on the performance of an Eligible Basket or Eligible Index.

“Equity Notional Amount” – means, with respect to each Proprietary Swap Transaction, (a) on the initial Calculation Date, the Initial Notional Amount, and (b) in respect of each Calculation Date thereafter, the Equity Notional Amount as of the previous Calculation Date plus or minus, as applicable, the Net Equity Amount calculated in respect of such previous Calculation Date.

“Ex Amount” – means, in relation to a Cash Distribution, 100% of the gross cash dividend or distribution per Basket Share declared by the Issuer to holders of record of a Basket Share.

“Ex-Dividend Date” – means, in relation to a Cash Distribution and a Basket Share, the date that such Basket Share commences trading ex-dividend on the relevant Exchange.

“Exchange” – means, in relation to a Basket Share in an Eligible Basket derived from an Eligible Index, an exchange or quotation system located in the United States of America for the Issuer of that Basket Share.

“Exchange Business Day” – means, (a) with respect to a Proprietary Swap Transaction with an Applicable Underlying which is an Eligible Basket, any day on which an Exchange selected by the Corporation in its discretion is open for trading during its regular trading sessions, notwithstanding any such Exchange closing prior to its scheduled weekday closing time; *provided that*, if, on such day, the Price Source does not publish a price level for an applicable Eligible Share traded on such Exchange, without regard to after hours or any other trading outside of the regular trading session hours, the Corporation has the discretion to use the price level for such Eligible Share as of the last day for which the price level was published by the Price Source, and in which case such day will be deemed to be an “Exchange Business Day”, and (b) with respect to a Proprietary Swap Transaction with an Applicable Underlying which is an Eligible Index, any day on which the Eligible Index Sponsor calculates and announces the price level of such Eligible Index; *provided that*, if, on such day, the Price Source does not publish a price level for the applicable Eligible Index, the Corporation has the discretion to use the price level for such Eligible Index as of the last day for which the price level was published by the Price Source, and in which case such day will be deemed to be an “Exchange Business Day”.

“Extraordinary Event” – means a Merger, a De-merger, a Delisting, a Suspension, an Insolvency or a Nationalization.

“Final Price” – means, in respect of a Proprietary Swap Transaction and a Calculation Date, the price level of the Eligible Index or, in the case of an Eligible Basket, the price level of each Eligible Share in such

Eligible Basket, in each case, as published by the Price Source as of the close of business on such Calculation Date.

“Floating Amount” – means, on each Calculation Date, with respect to a Proprietary Swap Transaction an amount equal to:

FFFFFFFFFFFFFFFF NNFFFFFFFFFFFFFF AAAFAAFFFF xx (FFFFFFFFFFFFFF RRRFFRR 0000FFFFFFFF ± SSOSSRRFFSS) xx DDFDD CCFAAFFFF CFFFFCCRFFFFFFFFFFFF

provided that, if the applicable administrator for such Floating Rate Option has not published the Floating Rate Option on such Calculation Date, then, in respect of any day for which the Floating Amount is required, references to the Floating Rate Option on such Calculation Date will be deemed to be references to the last provided or published Floating Rate Option (which shall be no more than 5 Swap Business Days prior to the applicable Calculation Date).

“Floating Leg” – means, with respect to a Proprietary Swap Transaction, the part of a Proprietary Swap Transaction where the payment is based on a Floating Rate Option.

“Floating Notional Amount” – means, with respect to each Proprietary Swap Transaction, initially, the Initial Notional Amount, and thereafter, updated to reflect the Equity Notional Amount on each Floating Notional Reset Date determined based on the Floating Notional Reset Frequency.

“Floating Notional Reset Date” – means each Swap Business Day on which the Floating Notional Amount for a Proprietary Swap Transaction is updated based on the Floating Notional Reset Frequency in accordance with Section D-806(2).

“Floating Notional Reset Frequency” – means, with respect to a Proprietary Swap Transaction, the timing for updating the Floating Notional Amount, which frequency shall either be daily during the Term or monthly during the Term, in each case as specified in the Economic Terms submitted for such Proprietary Swap Transaction.

“Floating Rate Option” – means, in respect of a Calculation Date and a Proprietary Swap Transaction, the daily or forward-looking term rate, as set out in the Economic Terms, based on the SOFR Rate, the EFR Rate, as applicable, or such other interest rate benchmark approved by the Corporation for such Proprietary Swap Transaction and published by the Corporation on the TRS Webpage, which rate shall be determined on each Floating Rate Reset Date during the Term of such Proprietary Swap Transaction, subject to, in the case of a daily rate calculated in arrears, a one Swap Business Day lookback or such applicable lookback period published by the Corporation on the TRS Webpage.

“Floating Rate Payer” or “Equity Amount Receiver”– means, in respect of a Swap Clearing Member, such Swap Clearing Member who is designated as the floating rate payer under a Proprietary Swap Transaction and who becomes the floating rate payer to the Corporation upon acceptance of the Proprietary Swap Transaction by the Corporation, and in respect of the Corporation, the Corporation when it has assumed the position of the floating rate payer under a Proprietary Swap Transaction pursuant to Section D-805(1). The term “Equity Amount Receiver” will be used when referring specifically to the Equity Leg of a Proprietary Swap Transaction, whereas the term “Floating Rate Payer” will be used when referring specifically to the Floating Leg of a Proprietary Swap Transaction.

“Floating Rate Reset Date” – means each Swap Business Day on which the Floating Rate Option for a Proprietary Swap Transaction is determined based on the Floating Rate Reset Frequency in accordance with Section D-806(3), with the initial Floating Rate Reset Date as the Trade Date.

“Floating Rate Reset Frequency” – means, with respect to a Proprietary Swap Transaction, the timing for determining the Floating Rate Option, which frequency shall either be fixed on the Trade Date (no reset), daily during the Term or monthly during the Term, in each case as specified in the Economic Terms submitted for such Proprietary Swap Transaction.

“FRN Convention” – means, with respect to any Proprietary Swap Transaction where the Economic Terms specify a Floating Notional Reset Frequency and/or Floating Rate Reset Frequency, as applicable, of ‘monthly’:

- (a) the first Floating Notional Reset Date or Floating Rate Reset Date, as applicable, shall be the day, numerically corresponding to the Trade Date, that falls in the calendar month immediately following the Trade Date;
- (b) each subsequent Floating Notional Reset Date or Floating Rate Reset Date, as applicable, shall be the day, numerically corresponding to the immediately preceding Floating Notional Reset Date or Floating Rate Reset Date, as applicable, that falls in the calendar month immediately following the one in which the preceding Floating Notional Reset Date or Floating Rate Reset Date, as applicable, occurred. However:
 - (i) if there is no such numerically corresponding day in the calendar month in which the relevant Floating Notional Reset Date or Floating Rate Reset Date, as applicable, should occur, then that Floating Notional Reset Date or Floating Rate Reset Date, as applicable, shall be the last Swap Business Day in that month;
 - (ii) if the relevant preceding Floating Notional Reset Date or Floating Rate Reset Date, as applicable, occurred on a Swap Business Day that was the last day in a calendar month, then all subsequent Floating Notional Reset Dates or Floating Rate Reset Date, as applicable, shall be the last Swap Business Day in the calendar month immediately following the one in which the preceding Floating Notional Reset Date or Floating Rate Reset Date, as applicable, occurred; and
- (c) the Modified Following Business Day Convention shall apply to each Floating Notional Reset Date or Floating Rate Reset Date, as applicable, that would otherwise fall on a day that is not a Swap Business Day.

“Index Adjustment Event” – means an Index Modification, an Index Cancellation or an Index Disruption.

“Index Cancellation” – means, in respect of a Proprietary Swap Transaction, the relevant Eligible Index Sponsor permanently cancels the Eligible Index and no Successor Index exists.

“Index Disruption” – means, in respect of a Proprietary Swap Transaction with an underlying which is an Eligible Index the failure of an Eligible Index Sponsor to calculate and announce the price level of an Eligible Index and, accordingly, the Price Source fails to publish a Final Price for such Eligible Index for 5 Exchange Business Days.

“Index Modification” – means, in respect of a Proprietary Swap Transaction with an underlying which is an Eligible Index, the relevant Eligible Index Sponsor announces that it will make a material change in the formula for or the method of calculating that Eligible Index or in any other way materially modifies that Eligible Index (other than a modification prescribed in that formula or method to maintain that Eligible Index in the event of changes in constituent share and capitalization and other routine events).

“Ineligible Shares” – means all shares that are not Eligible Shares.

“Initial Notional Amount” – means, with respect to a Proprietary Swap Transaction, the initial notional amount of the Equity Leg as of the Trade Date, which in the case of (i) an Eligible Index, shall be the initial notional amount as set out in the Economic Terms, and (ii) an Eligible Basket, an amount equal to the quantity of Eligible Shares set out in the Economic Terms multiplied by the Initial Price for such Eligible Share.

“Initial Price” – means, in respect of a Proprietary Swap Transaction, (i) for the first Calculation Date, the price level of the Eligible Index or, in the case of an Eligible Basket, the price level of each Eligible Share in such Eligible Basket, in each case, as published by the Price Source as of the close of business on the Trade Date as determined by the Corporation, and (ii) for each subsequent Calculation Date, the Final Price of such Eligible Index or Eligible Share, as applicable, as of the close of business on the immediately preceding Calculation Date.

“Insolvency” – means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceeding affecting an Issuer, (i) all the shares of that Issuer are required to be transferred to a trustee, liquidator or other similar official or (ii) holders of the shares of that Issuer become legally prohibited from transferring them.

“Issuer” – means, in respect of a Basket Share, the issuer of the relevant Basket Share.

“Issuer Bid” – means an offer to acquire or redeem Basket Shares of an Issuer made by the Issuer to shareholders (other than via a Transformation Event) in exchange of a valuable consideration offered or paid by such Issuer.

“Maturity Date” – means, with respect to any Proprietary Swap Transaction, the Swap Business Day that is one Swap Business Day prior to the Termination Date, and is also the last day of the Term of such Proprietary Swap Transaction, and the last Calculation Date for such Proprietary Swap Transaction.

“Merger” – means, (a) any (i) reclassification or change of such Basket Shares that results in a transfer of or an irrevocable commitment to transfer all of such Basket Shares outstanding to another entity or person, (ii) any consolidation, amalgamation, merger or binding share exchange or change in the capital structure of the Issuer with or into another entity or person where all the Basket Shares in the hands of the public are changed into another security, cash or other property (other than a consolidation, amalgamation, merger or binding share exchange in which such Issuer is the continuing entity and which does not result in a reclassification or change of all of Basket Shares of that Issuer which are outstanding), or (iii) a Takeover; and (b) the Basket Shares are delisted or privatized in exchange for New Shares which are Ineligible Shares or cash or other consideration.

“Modified Following Business Day Convention” – means the convention for adjusting a relevant date if it would otherwise fall on a day that is not a Swap Business Day to the first following day that is a Swap Business Day unless that day falls in the next calendar month, in which case the adjusted date will be the first preceding day that is a Swap Business Day.

“Nationalization” – means when all the Basket Shares of an Issuer or all or substantially all the assets of an Issuer are nationalized, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof.

“Net Equity Amount” – means, in respect of a Calculation Date with respect to each Proprietary Swap Transaction, the sum of all Equity Amounts (whether positive or negative) for such Proprietary Swap Transaction.

“New Shares” – means ordinary or common shares of any entity or person involved in a Transformation Event, or resulting from a Corporate Action with Options.

“Next Reset Date” – means, in respect of a Proprietary Swap Transaction, the next date on which the Floating Rate Option or Floating Notional Amount may be determined in accordance with the Floating Rate Reset Frequency or Floating Notional Reset Frequency, as applicable, or on which the Spread may be amended in accordance with the Operations Manual.

“Novation Date” – means the Swap Business Day on which a Proprietary Swap Transaction is accepted by the Corporation for clearance subject to conditions set forth herein.

“Partial Termination Amount” – has the meaning set out in Subsection D-811.4(2).

“Partial Unwind” – has the meaning set out in Subsection D-811.1(2).

“Partial Unwind Date” – has the meaning set out in Subsection D-811.4(1).

“Partial Unwind Notice” – has the meaning set out in Subsection D-811.1(2).

“Price Source” – means the price source for an Eligible Share and/or Eligible Index as published and linked on the TRS Webpage.

“Proprietary Swap Clearing” – means the provision of clearing services by the Corporation of Proprietary Swap Transactions in accordance with this Rule D-8.

“Proprietary Swap Transaction(s)” – means each cleared Transaction resulting from the novation of a Bilateral Swap Transaction pursuant to this Rule D-8 as more particularly described in Section D-805.

“Rate of Return” – means, in respect of a Proprietary Swap Transaction on each Calculation Date, a rate determined based on the following formula:

$$((\text{PPSSFFPPRR} - \text{IIFPPPPPPPPPP PPSSPPRR}) / \text{IIFPPPPPPPPPP PPSSPPRR}) \times \text{MMAAFFFFFOOFFFFRRSS} \text{ (ii FFFFOO)}$$

“Required Swap Margin” – means, in respect of a Calculation Date and a Swap Clearing Member, the aggregate Swap Margin required to be delivered by a Swap Clearing Member by the applicable Settlement Time on the related Settlement Date, in accordance with Rule A-7A, the Operations Manual and the Risk Manual, in respect of all Proprietary Swap Transactions entered into by such Swap Clearing Member and outstanding on such Calculation Date, together with any Required Swap Margin in respect of any prior Calculation Date not yet delivered by such Swap Clearing Member as of the applicable Settlement Time on the related Settlement Date.

“Rights Issue” – means when an Issuer issues or distributes any rights to its holders of Basket Shares to subscribe for or purchase additional Basket Shares of that Issuer.

“Settlement Date” – means, in respect of a Proprietary Swap Transaction and each Calculation Date, each Swap Business Day during the Term of such Proprietary Swap Transaction immediately following such Calculation Date.

“Share Buy-Back” – means an Issuer Bid or any other offer to the shareholders of an Issuer to purchase Basket Shares for cancellation by the Issuer.

“Share Consolidation” – means a decrease in the number of Basket Shares of an Issuer by a reduction, combination, consolidation or change in the then outstanding Basket Shares of an Issuer by a specific multiple.

“Share Distribution” – has the meaning set out in Subsection D-807.2(1).

“Share Split” – means an increase in the number of Basket Shares of an Issuer by a subdivision or change in the then outstanding Basket Shares of an Issuer by a specific multiple.

“Share-for-Combined” – means, in respect of a Merger, that the consideration for the Affected Shares consists of New Shares and cash, securities other than New Shares or assets.

“Share-for-Other” – means, in respect of a Merger, that the consideration for the Affected Shares consists of cash, securities other than New Shares or assets.

“Share-for-Share” – means, in respect of a Merger or a Corporate Action with Options, that the consideration for the Affected Shares consists or will consist solely of New Shares.

“SOFR Rate” – means the secured overnight financing rate (SOFR) as determined by the appointed SOFR benchmark administrator.

“Spin-off” – means when an Issuer offers holders of its shares the option of buying shares of one of its business units or divisions.

“Spread” – means, in respect of a Proprietary Swap Transaction, the per annum rate (which may be negative), if any, expressed as a decimal as set out in the Economic Terms.

“Successor Index” – has the meaning set out in Section D-814(1).

“Suspension” – means, in respect of a Basket Share, the suspension of trading activities related to such Basket Share by the relevant Exchange on which the Basket Share is listed and traded for any reason (other than a Transportation Event) pursuant to the rules of such Exchange.

“Swap Amendment” – has the meaning set out in Section D-806(4).

“Swap Business Day” – means each Exchange Business Day that is also a Currency Business Day.

“Swap Clearing Member” – means an applicant which meets the criteria set out in Section A – 1A01(b) and is approved by the Corporation for Proprietary Swap Clearing.

“Swap Net Settlement Amount” – means, with respect to a Swap Clearing Member, the amount calculated in accordance with Section D-816(3).

“Takeover” – means a Tender Offer that results in the purchase of 100% of the outstanding voting and/or participating shares of an Issuer.

“Tender Offer” – means a takeover offer, tender offer, share exchange offer, solicitation, proposal or other event by any entity or person that would result in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10% and less than 100% of the outstanding voting and/or participating shares of the Issuer.

“Term” – means the period from and including the Novation Date to and including the Maturity Date or such earlier date as may be designated by the Swap Clearing Members party to each leg of such Proprietary Swap Transaction pursuant to a Swap Amendment or as a result of such Proprietary Swap Transaction being unwound early, in full, as a result of a Corporate Action.

“Termination Date” – means, with respect to any Proprietary Swap Transaction, the date that is the final Settlement Date of such Proprietary Swap Transaction and initially is the date identified as such in the Economic Terms submitted by the applicable Swap Clearing Members for such Proprietary Swap Transaction, and is subject to adjustment pursuant to a Swap Amendment or as a result of such Proprietary Swap Transaction being unwound early, in full, as a result of a Corporate Action.

“Trade Confirmation” – means, with respect to any Proprietary Swap Transaction, a summary of the matched Economic Terms of such Proprietary Swap Transaction made available to the Swap Clearing Members party to each leg of the Proprietary Swap Transaction on the TRS Portal and which each such Swap Clearing Member is deemed to have received upon such publication on the TRS Portal.

“Trade Date” – means, with respect to any Proprietary Swap Transaction, the trade date of the Bilateral Swap Transaction as set out in the Economic Terms.

“Transformation Event” – means a Merger or a De-merger.

“TRS Portal” – means the online submission and confirmation platform for Proprietary Swap Transactions maintained by the Corporation and made available to Swap Clearing Members.

“TRS Webpage” – means the informational webpage for Proprietary Swap Transactions maintained by the Corporation and made available to Swap Clearing Members.

Any capitalized term used in this Rule D-8 that is not defined in this Section D-801 shall have the meaning assigned to it in Section A-102.

Section D-802 - Paramountcy

In the event of any inconsistency between the provisions of this Rule D-8 and the other provisions of the Rules, the provisions of this Rule D-8 will prevail.

Section D-803 - Essential Terms of Proprietary Swap 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 Proprietary Swap Transaction shall be required to be submitted to the Corporation by or on behalf of both of the Swap Clearing Members submitting a Bilateral Swap Transaction:

Floating Rate Payer

Equity Amount Payer

Trade Date

Termination Date

Multiplier [optional input; default to 1]

Settlement Currency

Equity ID/Index ID

Quantity [input only applicable to an Eligible Basket]

Initial Notional Amount [input only applicable to an Eligible Index]

Floating Rate Option

Floating Rate Option Tenor

Spread

Floating Rate Reset Frequency

Floating Notional Reset Frequency

Early Termination Option

- (2) For purposes of the *Interest Act* (Canada), if any rate of interest payable under any Proprietary Swap 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-804 - Trade Reception and Validation

- (1) Any Bilateral Swap Transaction submitted for Proprietary Swap Clearing shall be submitted to the Corporation by or on behalf of both Swap Clearing Members through the TRS Portal or through an Acceptable Intermediary (whether bilateral or multilateral). The Corporation may require evidence as it deems reasonably acceptable that a Swap Clearing Member is a duly authorized participant of any multilateral Acceptable Intermediary. 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 Intermediary.
- (2) Once a Bilateral Swap Transaction has been submitted to the Corporation, a variety of validations will occur in accordance with the Corporation's Proprietary Swap Clearing procedures. These validations are designed to ensure that (i) all Economic Terms of the Bilateral Swap Transaction submitted to the Corporation by the Swap Clearing Members match, (ii) all Acceptance Criteria set forth in Section D-104 are satisfied, and (iii) the Corporation does not accept any Bilateral Swap Transaction bearing attributes that are determined by the Corporation, in its discretion, as not acceptable for clearing, including without limitation, Eligible Basket, Eligible Index, and Eligible Share criteria.
- (3) The Corporation shall reject a Bilateral Swap Transaction for Proprietary Swap Clearing if (i) the Economic Terms listed in Section D-803 are determined by the Corporation, in its sole discretion, to be incorrect or incomplete when the Bilateral Swap Transaction is submitted to the Corporation by or on behalf of the Swap Clearing Members, (ii) the Economic Terms of the Bilateral Swap Transaction submitted by or on behalf of the two Swap Clearing Members do not match, (iii) any other Acceptance Criteria set forth in Section D-104 is not met or (iv) the Bilateral Swap

Transaction bears attributes that are determined by the Corporation, in its discretion, as not acceptable for clearing, including without limitation, Eligible Basket, Eligible Index, and Eligible Share criteria. Notwithstanding the foregoing, the Corporation may, in its sole discretion and for any reason, refuse to clear any Bilateral Swap Transaction submitted to it for Proprietary Swap Clearing.

- (4) If the Acceptable Intermediary used for submitting a Bilateral Swap Transaction to the Corporation for Proprietary Swap Clearing is a multilateral facility, each Swap Clearing Member transacting as Equity Amount Payer or Floating Rate Payer shall be responsible for timely affirming such Bilateral Swap Transaction on the TRS Portal, as directed by the Corporation.
- (5) A Bilateral Swap Transaction may be submitted for clearing pursuant to this Section D-804 and shall be cleared pursuant to Section D-805 regardless of whether such Bilateral Swap Transaction was agreed to bilaterally or on or subject to the rules of an unaffiliated electronic matching platform or trade execution facility.

Section D-805 – Novation

- (1) Once all validations have occurred with respect to a Bilateral Swap Transaction submitted for Proprietary Swap Clearing in accordance with Section D-804, the Bilateral Swap Transaction shall be automatically novated to the Corporation such that the Bilateral Swap Transaction is replaced by two equivalent Proprietary Swap Transactions, one between the Equity Amount Payer and the Corporation where the Corporation is substituted as the Floating Rate Payer, and one between the Floating Rate Payer and the Corporation where the Corporation is substituted as the Equity Amount Payer.
- (2) As a result of the novation process set forth in Section D-805(1), the Corporation shall (i) assume the position of the Equity Amount Payer and become an equity amount payer to the Floating Rate Payer and shall assume the position of the Floating Rate Payer and become a floating rate payer to the Equity Amount Payer under all Proprietary Swap Transactions in each case, as principal to such Proprietary Swap Transactions and (ii) issue a Trade Confirmation with respect to each individual Proprietary Swap Transaction which shall be deemed to be received by the transacting Swap Clearing Members once posted on the TRS Portal. A Swap Clearing Member shall be bound by the terms of a Proprietary Swap Transaction for which the Corporation has issued a Trade Confirmation in its name.
- (3) Proprietary Swap Clearing by the Corporation is subject to, and contingent upon, the occurrence of the novation described in Section D-805(1) above. As of the Novation Date, Swap Clearing Members that submitted a Bilateral Swap Transaction accepted for Proprietary Swap Clearing shall become subject to the terms of the resulting Proprietary Swap Transactions, which Proprietary Swap Transactions shall be governed by these Rules. If the Bilateral Swap Transaction is not accepted for clearing by, and is not novated to, the Corporation by close of business on the Trade Date, such Bilateral Swap Transaction shall be void ab initio and the Swap Clearing Members and the Corporation shall have no further obligation or liability with respect to such Bilateral Swap Transaction.
- (4) If the Bilateral Swap Transaction is revoked, voided or otherwise declared invalid for any reason after the Economic Terms of such Bilateral Swap Transaction has been accepted by the Corporation for Proprietary Swap Clearing, that revocation, avoidance or invalidity shall not affect any Proprietary Swap Transaction arising out of this Section D-805.

Section D-806 – Resets and Permitted Amendments to a Proprietary Swap Transaction during Term

- (1) The Equity Notional Amount for each Proprietary Swap Transaction shall automatically be updated by the Corporation on each Calculation Date during the Term of such Proprietary Swap Transaction to reflect the applicable Net Equity Amount.
- (2) The Floating Notional Amount for each Proprietary Swap Transaction shall automatically be updated by the Corporation following the close of the regular trading session on the relevant Exchange on each Floating Notional Reset Date during the Term of such Proprietary Swap Transaction in order to reflect the applicable Equity Notional Amount as of such Floating Notional Reset Date. If the Economic Terms provide a Floating Notional Reset Frequency of ‘monthly’, such Floating Notional Reset Date shall be determined in accordance with the FRN Convention.
- (3) The Floating Rate Option for each Proprietary Swap Transaction shall be determined by the Corporation on each Floating Rate Reset Date during the Term of such Proprietary Swap Transaction. If the Economic Terms provide a Floating Rate Reset Frequency of ‘monthly’, such Floating Rate Reset Date shall be determined in accordance with the FRN Convention.
- (4) If the Swap Clearing Members party to each leg of the relevant Proprietary Swap Transactions with the Corporation agree to amend the Economic Terms of such Proprietary Swap Transactions to: (a) increase the Equity Notional Amount of such Proprietary Swap Transactions as a result of an increase to the quantity of the Applicable Underlying or to add new Applicable Underlying(s) under such Proprietary Swap Transactions, (b) change the Floating Rate Option applicable to the Floating Leg of such Proprietary Swap Transaction, (c) change the Spread applicable to the Floating Rate Option of such Proprietary Swap Transactions, (d) change the Next Reset Date of such Proprietary Swap Transactions, or (e) change the Maturity Date of such Proprietary Swap Transactions, whether pursuant to an Early Termination Option or otherwise (each, a “**Swap Amendment**”), then both such Swap Clearing Members shall submit such Swap Amendment(s) to the Corporation for clearing in accordance with Sections D-803 and D-804, as applicable, as if such Swap Amendment were a Bilateral Swap Transaction. Subject to acceptance by the Corporation of such Swap Amendment(s) for clearing in accordance with Section D-805 as if such Swap Amendment were a Bilateral Swap Transaction, once all validations have occurred with respect to such Swap Amendment, such Swap Amendment shall become effective following the close of the regular trading session on the relevant Exchange on the Swap Business Day such Swap Amendment is submitted and accepted for clearing (such date, the “**Amendment Effective Date**”). If the Swap Amendment is accepted for clearing by the Corporation, the Corporation shall issue an amended Trade Confirmation reflecting the Swap Amendment and, in the case of a Swap Amendment to increase the Equity Notional Amount, the Floating Notional Amount shall automatically be updated by the Corporation as of the close of business on the Amendment Effective Date in order to reflect the revised Equity Notional Amount, and this Rule D-8 shall apply to such Proprietary Swap Transaction, as amended by the Swap Amendment, from and after the Amendment Effective Date, mutatis mutandis. If the Swap Amendment is not accepted for clearing by, and is not novated to, the Corporation, such Swap Amendment shall be *void ab initio* as between the applicable Swap Clearing Members, and such Swap Clearing Members and the Corporation shall have no obligation or liability with respect to any such Swap Amendment.

Section D-807 – Dividends

Subsection D-807.1 – Cash Distributions

- (1) In respect of each Proprietary Swap Transaction, the Equity Amount Receiver will be entitled to receive a Dividend Amount if any cash dividend or distribution, whether ordinary or extraordinary (a “**Cash Distribution**”) is declared by the Issuer to holders of record of a Basket Share where the relevant Ex-Dividend Date occurs during the Dividend Period for such Proprietary Swap Transaction and the record date for the Cash Distribution occurs during the Dividend Period. The Dividend Amount will be held by the Corporation as Swap Margin as of the Ex-Dividend Date until the date the relevant Cash Distribution is paid by the Issuer to holders of record of such Basket Share (the “**Dividend Payment Date**”). On the earlier of (i) each Dividend Payment Date relating to such Proprietary Swap Transaction and (ii) the Termination Date of such Proprietary Swap Transaction, the Corporation will pay the Dividend Amount to the Equity Amount Receiver, subject to the Following Swap Business Day Convention and subject to the netting provisions set out under Section D-816.
- (2) If a Dividend Amount of a Basket Share is adjusted by the relevant Issuer and the record date for the Cash Distribution occurs during the Dividend Period, the Corporation will make corresponding adjustments to the relevant Dividend Amount and any payment owing to the Equity Amount Receiver by the Corporation, or by the Equity Amount Receiver to the Corporation, as applicable, will be made on the applicable Swap Business Day following the date such adjustment is made by the Issuer, subject to the netting provisions set out under Section D-816.

Subsection D-807.2 – Share Distributions

- (1) If share dividends or stock distributions (a “**Share Distribution**”) are paid in respect of a Basket Share and the record date for the Share Distribution occurs during the Dividend Period, the Share Distribution will be calculated by multiplying the share distribution ratio per Basket Share by the number of Basket Shares in an Eligible Basket underlying a Proprietary Swap Transaction and will be added to the Eligible Basket.
- (2) As of the effective date of such Share Distribution, with respect to an applicable Proprietary Swap Transaction, the Corporation will make corresponding adjustment(s), if any, to any one or more of the Initial Price, the Final Price, the Equity Notional Amount, the Floating Notional Amount, and the relevant number of Basket Shares to reflect such Share Distribution.

Section D-808 – Share Split or Share Consolidation

If a Share Split or Share Consolidation occurs in respect of a Basket Share and the record date for the Share Distribution occurs during the Dividend Period, as of the effective date of such Share Split or Share Consolidation, with respect to an applicable Proprietary Swap Transaction, the Corporation will make corresponding adjustment(s), if any, to any one or more of the Initial Price, the Final Price, the Equity Notional Amount, the Floating Notional Amount and the relevant number of Basket Shares in the Eligible Basket to reflect the impact of such Share Split or Share Consolidation.

Section D-809 – Rights Issues

Securities issued pursuant to a Rights Issue by an Issuer will not form part of an Eligible Basket underlying a Proprietary Swap Transaction. Upon the announcement of a Rights Issue by an Issuer if the record date for the Rights Issue occurs during the Dividend Period, the Corporation will proceed as described in Subsection D-811.4(1) after having given a Partial Unwind Notice to the Affected Clearing Swap Members

within one Swap Business Day of such announcement. For late announcements, the Corporation will not recognize any retroactive adjustment.

Section D-810 – Other Events

In the case of any other event affecting or giving rise to a right or entitlement attaching to a Basket Share, the Corporation, acting through a team or a committee (as applicable, the “**Corporate Action Committee**”), consistent with the Corporate Action Policy, will determine, as soon as possible, what impact such event will have on the Proprietary Swap Transaction and inform Affected Swap Clearing Members by notice. Determinations regarding corporate actions pursuant to Sections D-807 through D-815 of these Rules shall be consistent with the Corporate Action Policy and subject to the determination of the Corporate Action Committee.

Section D-811 – Transformation Event

Subsection D-811.1 – Merger

- (1) If an Issuer is subject to a Merger for which the consideration is Share-for-Share and the New Shares are Eligible Shares if the record date for the Rights Issue occurs during the Dividend Period, the Affected Shares will be replaced with the New Shares in the Eligible Basket, according to the ratio provided in the terms of the Merger, and subject to Subsection D-811.4(3) and Subsection D-811.5.
- (2) If an Issuer is subject to a Merger for which the consideration is Share-for-Combined and the New Shares are Eligible Shares if the record date for the Rights Issue occurs during the Dividend Period, the Affected Shares will be replaced with the New Shares in the Eligible Basket, according to the ratio provided in the terms of the Merger. For the balance of the consideration comprised of cash, securities or assets, the Corporation will give notice (a “**Partial Unwind Notice**”) to the Affected Swap Clearing Members that the Proprietary Swap Transaction will be partially unwound (a “**Partial Unwind**”).
- (3) If an Issuer is subject to a Merger for which the consideration is Share-for-Other, or Share-for-Share or Share-for-Combined and any New Shares or other securities are Ineligible Shares, the Corporation will give a Partial Unwind Notice to the Affected Swap Clearing Members.

Subsection D-811.2 – De-merger

If an Issuer is subject to a De-merger, the record date for the De-Merger occurs during the Dividend Period and the arrangement results in the issuance of New Shares which:

- (a) are Eligible Shares, the New Shares will be added to the Eligible Basket, subject to Subsection D-811.5;
- (b) are Ineligible Shares, the Corporation will give a Partial Unwind Notice to the Affected Swap Clearing Members as soon as practicable; or
- (c) are Eligible Shares but any Affected Share becomes an Ineligible Share, the Corporation will give a Partial Unwind Notice to the Affected Swap Clearing Members as soon as practicable with respect to such Affected Shares;

the whole subject to Subsection D-811.5.

Subsection D-811.3 - Partial Unwind Notice Timing

- (1) Upon the announcement and the public dissemination by the Issuer of the details of the Transformation Event which requires, consistent with the Corporate Action Policy and subject to the determination of the Corporate Action Committee, that the New Shares will result in Ineligible Shares, the Corporation will give a Partial Unwind Notice to the Affected Swap Clearing Members as soon as practicable and will proceed as described in Subsection D-811.4.

Subsection D-811.4 – Partial Unwind following a Transformation Event

- (1) In the case of a Partial Unwind of a Proprietary Swap Transaction, as of the effective date of such unwind (which date shall be at least two Swap Business Days following the date of the Partial Unwind Notice or such longer period of time as the Corporation shall reasonably determine) (the “**Partial Unwind Date**”), the Corporation will make, consistent with the Corporate Action Policy and subject to the determination of the Corporate Action Committee, corresponding adjustment(s), if any, to any one or more of the Initial Price, the Final Price, the Equity Notional Amount, the Floating Notional Amount, the Eligible Basket and the relevant number of Basket Shares with respect to the removal of the Affected Shares from the applicable Eligible Basket underlying a Proprietary Swap Transaction. The Eligible Basket will remain in place until the Maturity Date without the Affected Shares.
- (2) In connection with a Partial Unwind of a Proprietary Swap Transaction relating to the removal of Affected Shares, the Corporation will calculate the Equity Amount and the Floating Amount of the terminated portion of both the Equity Leg and the Floating Leg, respectively, (in each case, the “**Partial Termination Amount**”) of the applicable Eligible Basket underlying a Proprietary Swap Transaction as of the Partial Unwind Date, using the closing price of the relevant Exchange of the Affected Shares as of such Partial Unwind Date, and the relevant Affected Swap Clearing Member or the Corporation under each leg of the Proprietary Swap Transaction will pay the Partial Termination Amount on such Partial Unwind Date as published by the Price Source, subject to the netting provisions set out under Section D-816. For the avoidance of doubt, the decrease of the Equity Notional Amount represented by the removal of the Affected Shares will not form part of the Partial Termination Amount.
- (3) If the Corporation is unable to remove the Affected Shares from the Eligible Basket prior to the effective date of a Transformation Event, the Corporation will:

 - (a) in the case of a Merger, use the cash consideration, if any, provided as part of the terms of the Merger to calculate the Partial Termination Amount and remove the Affected Shares from the Eligible Basket. If a Merger resulting in a Share-to-Share transformation of the Basket Shares into Ineligible Shares was not announced prior to its completion, the Corporation will use the published conversion ratio and the closing price on the relevant Exchange of the resulting corporation as published by the Price Source to calculate the Partial Termination Amount; or
 - (b) in the case of a De-merger, use (i) the Affected Shares’ closing price on the relevant Exchange on the day prior to the effective date of the De-merger as published by

the Price Source, minus the sum, on such effective date, of the closing price on the relevant Exchange of the Affected Shares as published by the Price Source, plus the closing price of the Spin-off company's shares on its first day of trading on the relevant Exchange as published by the Price Source, and (ii) the terms of the De-merger, in each case, to determine the Partial Termination Amount.

Subsection D-811.5 – General Provisions for Transformation Events

The Corporation will make the adjustments to the Initial Price, the Final Price, the Equity Notional Amount, the Floating Notional Amount and the Eligible Basket, as applicable, underlying a Proprietary Swap Transaction provided in Subsection D-811.1 and Subsection D-811.2 on the effective date of the applicable Transformation Event.

Subsection D-811.6 – Excluded Events

In the event of Tender Offers and Share Buy-Backs in respect of Basket Shares, the Corporation will not treat those as Transformation Events and the relevant Eligible Basket will remain unchanged, unless the Tender Offer results in a Takeover, in which case the Corporation will then proceed as described in Subsection D-811.1.

Section D-812 – Suspension

- (1) If the Corporation is unable to remove the Affected Shares from the Eligible Basket prior to the formal Suspension of the applicable Issuer, the Corporation may require discretionary Swap Margin in anticipation of the attribution of a zero value to the suspended Affected Shares. If the Proprietary Swap Transaction matures, the Corporation will indefinitely extend the Term of the Proprietary Swap Transaction on the Affected Shares only. If the Affected Swap Clearing Members oppose the indefinite extension of the Term of the Proprietary Swap Transaction, both Affected Swap Clearing Members may agree to an early termination of the Proprietary Swap Transaction.

Section D-813 – Insolvency, Delisting and Nationalization

If an Issuer becomes subject to Insolvency, Nationalization, or a Basket Share is subject to Delisting, the Corporation will give a Partial Unwind Notice, on the Announcement Date, to the Affected Swap Clearing Members. The Affected Shares will then be removed from the Eligible Basket underlying the Proprietary Swap Transaction and the Corporation will make corresponding adjustment(s), if any, to any one or more of the Initial Price, the Final Price, the Equity Notional Amount, the Floating Notional Amount, the Eligible Basket and the and the relevant number of Basket Shares in the Eligible Basket with respect to such removal of the Affected Shares effective as of the Announcement Date

Section D-814 – Material Changes in Eligible Indices.

- (1) If the price level of an Eligible Index is (i) not calculated and announced by the Eligible Index Sponsor and published by the Price Source but is calculated and announced by a successor Eligible Index Sponsor and published by the Price Source within 5 Exchange Business Days of the applicable Calculation Date, or (ii) replaced by a successor index using, in the determination of the Corporation, the same or a substantially similar formula for and method of calculation as used in the calculation of that Eligible Index, then in each case that index (the “Successor Index”) will be deemed to be the Eligible Index.

- (2) If an Index Adjustment Event occurs, the Corporation will give notice on the Announcement Date (the “**Early Unwind Date**”), to the Affected Swap Clearing Members that the relevant Proprietary Swap Transaction will be unwound. The Corporation will calculate the Equity Amount and the Floating Amount of the relevant Proprietary Swap Transaction to be unwound as if such Early Unwind Date were the final Calculation Date and the relevant Swap Clearing Member or the Corporation, as applicable, under each leg of the Proprietary Swap Transaction will pay the Net Equity Amount and the Floating Amount on the Swap Business Day following such Early Unwind Date, subject to the netting provisions set out under Section D-816.

Section D-815 Mandatory Corporate Actions with Options

- (1) In the case of Corporate Actions with Options which consists of a Share-for-Share transformation as the default market option of the Issuer’s jurisdiction and which results in New Shares which are Eligible Shares, the Affected Shares will be replaced with the resulting Eligible Shares in the Eligible Basket of the Proprietary Swap Transaction. The Eligible Basket will reflect such New Shares as of the effective date of the Corporate Action with Options and the Corporation will make corresponding adjustment(s), if any, to any one or more of the Initial Price, the Final Price, the Equity Notional Amount, the Floating Notional Amount, the Eligible Basket and the relevant number of Basket Shares in the applicable Eligible Basket underlying a Proprietary Swap Transaction.
- (2) In the case the Share-for-Share transformation results in Ineligible Shares, the cash consideration option shall be deemed to have been elected, subject to any currency convention where applicable. The amount of the cash consideration option (the “**Cash Consideration Amount**”) will be deemed to be Swap Margin delivered by the Equity Amount Receiver and held by the Corporation. On the effective date of such Share-for-Share transformation, the Corporation will give a Partial Unwind Notice to the Affected Swap Clearing Members. The Affected Shares will then be removed from the Eligible Basket underlying the Proprietary Swap Transaction and the Corporation will make corresponding adjustment(s), if any, to any one or more of the Initial Price, the Final Price, the Equity Notional Amount, the Floating Notional Amount, the Eligible Basket and the relevant number of Basket Shares in the Eligible Basket with respect to such removal of the Affected Shares effective as of the effective date of such Share-for-Share transformation.
- (3) In the case of any other Corporate Actions with Options, the Corporation will always elect the default market option of the Issuer’s jurisdiction and reflect the applicable changes in the applicable Eligible Basket of the Proprietary Swap Transaction. Such Eligible Basket will reflect such changes as of the effective date of such Corporate Action with Options and the Corporation will make corresponding adjustment(s), if any, to any one or more of the Initial Price, the Final Price, the Equity Notional Amount, the Floating Notional Amount, the Eligible Basket and the relevant number of Basket Shares in the applicable Eligible Basket underlying a Proprietary Swap Transaction.

Section D-816 – Transfers and Payments

- (1) In respect of the Equity Leg of each Proprietary Swap Transaction, the Corporation shall calculate on each Calculation Date during the Term (with the first such Calculation Date to be the Swap Business Day following the Trade Date), the Net Equity Amount as of such Calculation Date by aggregating the Equity Amounts (whether positive or negative) as of such Calculation Date with respect to the Applicable Underlying for such Proprietary Swap Transaction. Such Net Equity Amount will be payable to or from the applicable Swap Clearing Member, as applicable, on the

related Settlement Date up to and including the Termination Date, subject to the netting provisions under Section D-816(3).

- (2) In respect of the Floating Leg of each Proprietary Swap Transaction, the Corporation shall calculate on each Calculation Date during the Term (with the first such Calculation Date to be the Exchange Business Day following the Trade Date), the Floating Amount as of such Calculation Date owing by the Floating Rate Payer under such Proprietary Swap Transaction. Such Floating Amount will be payable to or from the applicable Swap Clearing Member, as applicable, on the related Settlement Date up to and including the Termination Date, subject to the netting provisions under Section D-816(3).
- (3) On each Calculation Date, the Corporation will calculate the Swap Net Settlement Amount for each Swap Clearing Member in accordance with this Section D-816(3). The Swap Net Settlement Amount will be determined by netting the Daily Equity Payment Obligation for such Swap Clearing Member, the Daily Floating Payment Obligation for such Swap Clearing Member, the Dividend Amount owed by or to such Swap Clearing Member and any adjustment to the Dividend Amount owed by or to such Swap Clearing Member and the Partial Termination Amount owed by or to such Swap Clearing Member, in each case, on such Calculation Date. On the Settlement Date related to such Calculation Date, and in accordance with the procedures and times set out in the Operations Manual and the Default Manual, the Swap Clearing Member or the Corporation, as applicable, will pay such Swap Net Settlement Amount on or prior to the applicable Settlement Time. The Swap Net Settlement Amount shall not be netted against any Required Swap Margin.
- (4) On each Settlement Date, the Corporation will notify the Swap Clearing Member of the Swap Net Settlement Amount calculations in accordance with the procedures set out in the Operations Manual. If, on any Settlement Date, the Swap Clearing Member has not received such notice from the Corporation, it shall be the responsibility of that Swap Clearing Member to ascertain from the Corporation the Swap Net Settlement Amount owed by the Swap Clearing Member on such Settlement Date so that payment of such amount may be made to a Designated Financial Institution before the applicable Settlement Time on such Settlement Date.
- (5) Each Swap Clearing Member is responsible for delivering sufficient funds to a Designated Financial Institution to satisfy its Swap Net Settlement Amount obligations as they become due.
- (6) If the Corporation does not have sufficient liquidity to pay all the Swap Net Settlement Amount it owes to Swap Clearing Members on a given Settlement Date, the Corporation shall fail to pay *pro rata* among such Swap Clearing Members and that event shall constitute a Payment Default trigger under Paragraph A-409(5)(a) in respect of the Affected Swap Clearing Members.

Section D-817 - Final and Irrevocable Payment

When the settlement of a payment obligation of a Swap Clearing Member or the Corporation is made through an entry to or a payment out of an account as provided in Section D-816(3), such settlement of the payment obligation of a Clearing Member or the Corporation shall be final and irrevocable.

CDCC RULES

CLEAN VERSION

CANADIAN DERIVATIVES CLEARING CORPORATION

RULES

[...] 2026

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

“1934 Act” – means the US Securities Exchange Act of 1934.

“Acceptable Instrument Types” or **“Acceptable OTCI”** – means Over-the-Counter Instruments and Proprietary Swap Transactions 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 CIRO Rules including CIRO Rule 7300 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 and Proprietary Swap Transactions 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 Clearing Fund Deposit” – means the additional amount required of the Clearing Member in addition to the Clearing Fund deposit pursuant to Section A-606.



“Adjustment Committee” – has the meaning attributed thereto in Subsection A-902(2).

“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(11).

“Applicable Underlying” – has the meaning attributed thereto in Section D-801.

“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, with respect to Core Products, an Approved Securities Intermediary approved by the Corporation to act in such capacity pursuant to Section A-224.

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

“Approved Processes” – means any CDCS 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 or authorized foreign 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 Core Base Initial Margin or Swap Base Initial Margin, as applicable.

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

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

“U.S. Broker-Dealer” – means a broker-dealer registered as such with the SEC under the 1934 Act.

“Business Day” – means any day on which the Corporation is open for business, as published on its website from time to time. For greater clarity, for services related to Proprietary Swap Clearing, a “Business Day” means a Swap Business Day, unless otherwise specified by the Corporation.

“Business Hours” – means from 8 p.m. t-1 (ET) to the Close of Business the next day on any Business Day or Swap Business Day, as applicable.

“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(10).

“Calculation Date” – in connection with a Proprietary Swap Transaction, has the meaning attributed thereto in Section D-801 and, otherwise, has the meaning attributed thereto in Subsection A-1005(5).

“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 or the United States and in any other currency accepted by the Corporation.

“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).

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

“**CDCC Contacts**” – has the meaning attributed thereto in Subsection A-206(2).

“**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 Confirmation**” – has the meaning attributed thereto in Section A-803.

“**CDS Funds Account**” – means a funds 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.

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

“**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 or DTC.

“**CFTC**” – means the U.S. Commodity Futures Trading Commission.

“**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 a 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 type of 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, which are as follow:

- (a) Client Account Individual,
- (b) Client Account Omnibus.

“Client Account Individual” - means a type of Client Account that requires specific documentation to be signed between the Clearing Member and the Corporation, for one single Client.

“Client Account Omnibus” - means a type of Client Account that requires specific documentation to be signed between the Clearing Member and the Corporation for multiple Clients.

“Client Fixed Income Transactions” – has the meaning attributed thereto in Paragraph A-301(4)(d).

“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).

“Confidential Information” – has the meaning attributed thereto in Subsection A-210(2).

“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, OTCI transactions and Proprietary Swap 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.

“Core Base Initial Margin” – means a component of the Margin Deposit required of each Clearing Member in respect of Core Products as calculated in accordance with the Risk Manual.

“Core Business” – means activities of the Corporation related to Core Products.

“Core Margin” – means any and all of the deposits delivered 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) pursuant to Rule A-7 Margin Requirements.

“Core Margin Deposit” – means, collectively,

- (a) any and all Securities, Financial Assets, Cash, Instruments, cheques, Underlying Interests, Underlying Interest Equivalents, Long Positions and Short Positions; and
- (b) any and all of the deposits delivered 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 Clearing Fund 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;

in each case, delivered 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 in respect of the Corporation’s Core Business.

“Core Margin Deposit Account” – means a Firm Margin Deposit Account or a Non-GCM Regime Margin Deposit Account or a GCM Regime Margin Deposit Account.

“Core Products” - means Futures, Options, Fixed Income and OTCI Transactions, other than Proprietary Swap Transactions, or any other product so designated by the Corporation.

“Core Tranche” – means in respect of each of the Clearing Fund and the Supplemental Liquidity Fund, the Tranche thereof that is determined and maintained in respect of Core Products.

“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).

“Counterclaims” – has the meaning attributed thereto in Subsection A-409(14).

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

“Crown” – means any of (i) the “Federal Crown”, which means His Majesty the King in right of Canada, (ii) the “BC Crown”, which means His Majesty the King in right of British Columbia, (iii) the “Alberta Crown”, which means His Majesty the King in right of Alberta, (iv) the “Saskatchewan Crown”, which means His Majesty the King in right of Saskatchewan, (v) the “Manitoba Crown”, which means His Majesty the King in right of Manitoba, (vi) the “Ontario Crown”, which means His Majesty the King in right of Ontario, (vii) the “Quebec Crown”, which means His Majesty the King in right of Quebec, (viii) the “NB Crown”, which means His Majesty the King in right of New Brunswick, (ix) the “NS Crown”, which means His Majesty the King in right of Nova Scotia, (x) the “PEI Crown”, which means His Majesty the King in right of Prince Edward Island, and (xi) the “Newfoundland Crown”, which means His Majesty the King 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 Subsection 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 sequence set out in the Default Manual for application of financial resources available to the Corporation during a Default Management Period.

“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 Paragraph 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 Canadian depository receipt, a bond, a currency, a stock or economic index or any other asset.

“Designated Custodian” – has the meaning attributed thereto in Rule D-8.

“Designated Depository” – has the meaning attributed thereto in Rule D-8.

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

“Designated Financial Institution” - has the meaning attributed thereto in Rule D-8.

“Designated Maintenance Rating” – has the meaning attributed thereto in Subsection 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.

“Disciplinary Committee” – has the meaning attributed thereto in Subsection A-502(4).



“DTC” – means The Depository Trust Company, acting as Central Securities Depository in the U.S. or acting in any other capacity, or any successor thereof.

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

“Effective Ratio” – has the meaning attributed thereto in Section A-1B08.

“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.

“Eligible Basket” – has the meaning attributed thereto in Section D-801.

“Eligible Index” – has the meaning attributed thereto in Section D-801.

“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, Approved Depository, Designated Custodian, Designated Depository, 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, a Designated Custodian, Designated 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.

“Equity Leg” – has the meaning attributed thereto in Section D-801.

“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” – in connection with a Proprietary Swap Transaction, has the meaning attributed thereto in Section D-801, and otherwise, 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.

“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.

“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.

“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 or Proprietary Swap 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).

“FDIC” – means the U.S. Federal Deposit Insurance Corporation.

“Federal Reserve” – means the U.S. Board of Governors of the Federal Reserve System.

“Final Settlement Amount” – means the amount determined by the Calculation Agent in accordance with Subsection A-409(11).

“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,
 - a. one of whose principal purposes is to provide liquidity support to local credit unions or financial services cooperatives.

“FINRA” – means the Financial Industry Regulatory Authority.

“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. The requirements of the GCM or Non-GCM Regime will not be applicable to these accounts.

“Firm Fixed Income Transactions” – has the meaning attributed thereto in Paragraph A-301(4)(d).

“Firm Margin Account” - means an account in which the Core Margin requirement is the aggregation of the Firm Accounts’ Core Margin requirements pursuant to Rule A-7 Margin Requirements and the methodology set out in the Risk Manual.

“Firm Margin Deposit Account” - means an account in which the Deposit covers the Firm’s Core Margin requirements pursuant to Rule A-7 Margin Requirements and the methodology set out in the Risk Manual.

“Firm Transactions” – means Transactions in respect of Core Products or Proprietary Swap Transactions affected by a Clearing Member for its own account or on behalf of an Affiliate.

“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.

“Floating Leg” – has the meaning attributed thereto in Section D-801.



“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 Subsection A-1008(5).

“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.

“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.

“GCM Declaration File” - File submitted each Business day in order to allow eligible positions declaration of each individual client within the Client Account Omnibus structure for the purpose of calculating the Core Base Initial Margin under the GCM Regime.

“GCM Regime or Gross Client Margin Regime” - means a regime that will be applicable to all the Open Positions on Futures and Futures Options and the related Core Margin requirement in Client Accounts and Market Maker Non-Firm Accounts. As such, the margin will be calculated in accordance with the Rule A-7 Margin Requirements and the methodology set out in the Risk Manual. The GCM Regime will exclude the Hedge Open Positions and Short Positions in Futures or Options for which they have deposited Securities held in specific Deposits in accordance with Sections A-212 and A-706 of the Rules.

“GCM Regime Margin Account” - means an account in which the Core Margin requirement is the aggregation of the Core Margin requirements pursuant to Rule A-7 Margin Requirements and the methodology set out in the Risk Manual for the Open Position eligible under the GCM Regime.

“GCM Regime Margin Deposit Account” - means an account in which the Deposit covers the GCM Regime Margin requirements pursuant to Rule A-7 Margin Requirements and the methodology set out in the Risk Manual.



“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.

“Hedge Open Position” - means Open Positions identified by Clearing Members as eligible to reduce the market risk, for a Client Account Individual or Market Maker Non-Firm Account.

“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).

“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.

“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.

“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.

“Intra-Day Swap Margin Call” – means the requirement to deposit supplementary Swap Margin, as determined by the Corporation in accordance with Section A-7A05, 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 CIRO.

“LCM RAD Net Gain” – has the meaning attributed thereto in Paragraph 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 Liquidating Settlement Account (CAD) and the Liquidating Settlement Account (USD), or either as the context may require.

“Liquidating Settlement Account (CAD)” – means the Canadian dollar 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 Core Margin Deposits, in accordance with Section A-402.

“Liquidating Settlement Account (USD)” – means the U.S. dollar 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 Swap 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 all Core Margin and Swap Margin.

“Margin Deposit” – means all Core Margin Deposits and all Swap Margin Deposits.

“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 type of 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, which are as follow:

- (a) Market Maker Firm Account,
- (b) Market Maker Non-Firm Account.



“Market Maker Firm Account” - means a Market Maker Account on which the Market Maker trades on behalf of the Firm. All the Rules applicable to a Firm Account (including the Rules related to the Margin) will be applicable in the same manner to a Market Maker Firm Account.

“Market Maker Non-Firm Account” - means a Market Maker Account on which the Market Maker does not trade on behalf of the Firm. All the Rules applicable to a Client Account under the GCM Regime or the Non-GCM Regime (including the Rules related to the Margin) will be applicable in the same manner to a Market Maker Non-Firm Account.

“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.

“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.

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

“Maturity Date” – in connection with a Proprietary Swap Transaction, has the meaning attributed thereto in Section D-801, and otherwise, means the date on which final obligations related to a Transaction are executed.

“Minimum Threshold” – means the quantity starting from which an OTCI (other than a Proprietary Swap Transaction) 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 Client Account Individual.

“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)(e); 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)(d).

“Net Variation Margin Requirement” – has the meaning attributed thereto in Subsection D-607(3).

“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.

“NFA” – means the National Futures Association.

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

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

“Non-GCM Regime or Non-Gross Client Margin Regime” – means a regime that will be applicable to all accounts that are not subject to the GCM Regime or the Firm.

“Non-GCM Regime Margin Account” - means an account in which the Core Margin requirement is the aggregation of the Core Margin requirements pursuant to Rule A-7 Margin Requirements and the methodology set out in the Risk Manual for the Open Position eligible under the Non-GCM Regime.

“Non-GCM Regime Margin Deposit Account” - means an account in which the Deposit covers the Non GCM Regime Margin requirements pursuant to Rule A-7 Margin Requirements and the methodology set out in the Risk Manual.

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

“Notice” – has the meaning attributed thereto in Paragraph A-1A01(j).

“Notice Files” – has the meaning attributed thereto in Subsection A-206(2).

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

“OCC” – means the U.S. Office of the Comptroller of Currency.

“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, or, in the case of a Proprietary Swap Transaction, the position of an Equity Amount Payer or an Equity Amount Receiver, in each case, which has not expired, matured or terminated.

“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 Subsection 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.

“Overnight Margin Call” – means the requirement to deposit supplementary Margin, as determined by the Corporation in accordance with Section A-706 at any time the Corporation deems necessary during the Overnight Clearing Cycle, as such term is defined in the Operations Manual.

“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, but excluding any Proprietary Swap Transactions.

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



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

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

“Porting” means the transfer of Risk Accounts associated with a suspended Clearing Member, including any position maintained in such account and any Core Margin Deposits held by the Corporation in respect of such account under the GCM Regime, to a Receiving Clearing Member as contemplated under Section A-401(3)(b) of the Rules. Transferring by way of Porting is part of the risk mitigation tools to protect the Financial Assets and positions of Clearing Members client’s as contemplated in the Default Manual.

“Porting Base Initial Margin Collateral” - means the collateral value associated with the Base Initial Margin (including the Variation Margin for Options) for the Open Positions eligible for a transfer by way of Porting under the GCM Regime in accordance with Paragraph A-401(3)(b).

“Porting Coverage Threshold” - means the exposure limit assessed by CDCC and against which the Porting Base Initial Margin Collateral of the individual client Risk Account is compared to abandon the transfer by way of Porting process.

“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.

“Proprietary Account” – means the definition of Proprietary Account under CFTC Regulation 1.3.

“Proprietary Swap Clearing” – has the meaning attributed thereto in Section D-801.

“Proprietary Swap Transaction(s)” – has the meaning attributed thereto in Section D-801.

“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.

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

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

“Quotation Date” – has the meaning attributed thereto in Subsection A-409(11).

“RAD Net Gain” – has the meaning attributed thereto in Paragraph 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.

“Receiving Clearing Member” - means a Clearing Member that:

- (i) was named by a client (as provided for in the Default Manual) to receive its Open Positions and the Porting Core Base Initial Margin Collateral in case its current Clearing Member becomes a suspended Non-Conforming Member in accordance with Paragraph A-401(3)(b)
- (ii) immediately upon providing CDCC with its confirmation of accepting a client from a suspended Non-Conforming Member:
 - a) has provided CDCC with an irrevocable acceptance of the client and corresponding ported Risk Account;
 - b) becomes fully liable for authenticating the identity of the client requesting a transfer by way of Porting (including the client legal authority).
- (iii) and once CDCC confirms proceeding with the transfer by way of Porting of a client, will also be fully liable for all obligations related to the client ported Risk Account during and after the Default Management Period.

“Recovery Auction” – has the meaning attributed thereto in Subsection A-1007(1).

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



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

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

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

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

“Reduced Amounts Distribution” or “RAD” – has the meaning attributed thereto in Subsection A-1005(1).

“Reduced Amounts Distribution Period” – has the meaning attributed thereto in Subsection A-1005(2).

“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 (CO₂e) 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 (CO₂e) 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).

“Required Swap Margin” – has the meaning attributed thereto in Section D-801.

“Restricted Clearing Member” – has the meaning attributed thereto in Section A-412.

“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 Accounts” - means the level at which the Initial Margin requirement is calculated for Options, Futures, Unsettled Items and Fixed Income Transactions.



“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.

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

“SEC” – means the U.S. Securities and Exchange Commission.

“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 in Subsection A-1A01(j).

“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 or Swap Business Day, as applicable, the time on such Business Day or Swap Business Day as established by the Corporation in the Operations Manual and if no Business Day or Swap Business Day is specified, the time on the next Business Day or Swap Business Day, as applicable, 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, any Swap Net Settlement Amount and all other payments required in respect of such Business Day or Swap Business Day, as applicable, 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.

"SRO Clearing Member" – means a Clearing Member which is a member or approved participant in good standing with an exchange recognized in a Canadian province or a dealer member in good standing with CIRO.

"STA" – has the meaning attributed thereto in Paragraph A-224(1)(a).

"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.

"Supplemental Liquidity Contributions" – means any and all of the contributions required or made pursuant to Rule A-6A Supplemental Liquidity Fund.

"Supplemental Liquidity Fund" – means a fund established pursuant to Rule A-6A Supplemental Liquidity Fund.

"Swap Base Initial Margin" – means a component of the Margin Deposit required of each Clearing Member in respect of Proprietary Swap Transactions as calculated in accordance with the Risk Manual.

"Swap Business Day" – has the meaning attributed thereto in Section D-801.

"Swap Clearing Base Deposit" – has the meaning attributed thereto in Section A-601.

"Swap Clearing Member" – has the meaning attributed thereto in Section D-801.

"Swap Margin" – means any and all of the deposits delivered by or on behalf of a Clearing Member to the Corporation or another person (including the Designated Custodian, Designated Depository, or a Designated Financial Institution) pursuant to Rule A-7A Swap Margin Requirements.

"Swap Margin Deposit" – means, collectively,

- (a) any and all Securities, Financial Assets, Cash, Instruments with respect to Proprietary Swap Transactions; and
- (b) any and all of the deposits delivered pursuant to Rule A-6 Clearing Fund Deposits, Rule A-7A Swap Margin Requirements, Rule D-8 Clearing of Proprietary Swap Transactions, including Swap Margin, Base Deposits, Additional Clearing Fund Deposits and Variable Deposits, and any other form of deposit accepted from time to time by the Corporation;

in each case, delivered by or on behalf of a Clearing Member to the Corporation or another person (including the Designated Custodian, Designated Depository, or a Designated Financial



Institution) for purpose of the performance of the obligations of the Clearing Member under the Rules in respect of Proprietary Swap Transactions.

“Swap Margin Fund Account” – means the account maintained by containing all Swap Margin deposited by such Clearing Member to CDCC further to entering into a Proprietary Swap Transaction, in respect to the Firm Margin Accounts for any of the following: (1) Swap Base Initial Margin, (2) Additional Margin for Market Liquidity Risk, (3) Additional Margin for Intra-Day Variation Margin Risk, (4) Additional Margin for Banking Holiday Risk, (5) Additional Margin for Capital Risk, (6) Additional Margin for Stress Test Risk, and (7) Additional Margin for Dividend Payment Risk; the whole in accordance with the Rule A-7A, the Risk Manual and the Operations Manual.

“Swap Net Settlement Amount” – has the meaning attributed thereto in Section D-801.

“Swap Tranche” – means in respect of each of the Clearing Fund and the Supplemental Liquidity Fund, the Tranche thereof that is determined and maintained in respect of Proprietary Swap Transactions.

“Tear-Up Value” – has the meaning attributed thereto in Subsection 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 Paragraph A-409(11)(e).

“Trade Confirmation” – in connection with a Proprietary Swap Transaction, has the meaning attributed thereto to in Section D-801, and otherwise means the official document issued to a Clearing Member which details the attributes of the OTCI transaction (other than a Proprietary Swap 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.

“Tranche” or “Tranches” – means the portion of the Clearing Fund and Supplemental Liquidity Fund, as applicable, related to each of the Core Business and the Proprietary Swap Transactions.

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

“Transaction Value” – has the meaning attributed thereto in Paragraph A-409(11)(b).

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

“Uncovered Residual Credit Risk” or “URCR” – 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 URCR 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, of an OTCI or of a Proprietary Swap Transaction. The Underlying Interest may be a commodity or a financial instrument such as a stock, a Canadian depositary receipt, 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.

“U.S. Bank” – means a bank chartered as such under the laws of the United States, or a state thereof.

“U.S. Bank Clearing Member” – means a Clearing Member that is a U.S. Bank.

“U.S. Futures Commission Merchant” – means a futures commission merchant registered as such under the U.S. Commodity Exchange Act and regulated by the CFTC.

“U.S. Person” – means the definition of U.S. Person under CFTC Regulation 23.23(a)(23).

“U.S. SRO Clearing Member” – means a Clearing Member that is a U.S. Broker-Dealer, U.S. Futures Commission Merchant or U.S. Swap Dealer which is in good standing under each applicable regulatory regime to which it is subject.

“U.S. Swap Dealer” – means a swap dealer registered as such under the U.S. Commodity Exchange Act and regulated by the CFTC.

“Valued Securities” – means certain Securities which respect certain eligibility criteria determined by the Corporation in the Risk Manual.

“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 in Subsection A-1008(1).

Rule A-1 A - MEMBERSHIP IN THE CORPORATION

Section A-1 A01- Eligibility for Membership

- (a) In order to apply for membership and subject to Subsection A-1A01(d) in the case of a Limited Clearing Member, 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 CIRO; 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 Swap Clearing Member, an applicant must:
 - (i) meet one of the following eligibility requirements and be in good standing under each applicable regulatory regime to which it is subject:
 - (A) one of the eligibility requirements set out in Subsection A-1A01(a);
 - (B) be a U.S. Broker-Dealer;
 - (C) be a U.S. Bank;
 - (D) be a U.S. Swap Dealer; or
 - (E) be a U.S. Futures Commission Merchant;
 - (ii) be a full member participant of the Designated Depositary; and
 - (iii) either:
 - (A) if a U.S. person, provide evidence satisfactory to the Corporation that the applicant has the status of “Qualified Derivatives Dealer (QDD)” under U.S. federal income tax laws; or
 - (B) if a non-U.S. person, provide evidence satisfactory to the Corporation that the applicant has the status of “Qualified Derivatives Dealer (QDD)” under U.S. federal income tax laws or has or will have “effectively connected income (ECI)” under U.S. federal income laws in connection with Proprietary Swap Transactions.
- (c) An applicant that does not meet the eligibility requirements in Subsection A-1A01(a) shall meet any additional requirement that the Bank of Canada may reasonably require to assess the impact of the potential application.

- (d) 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.
- (e) 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.
- (f) 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.
- (g) 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.
- (h) A Clearing Member that intends to submit Futures Contracts on Carbon Dioxide Equivalent (CO₂e) 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.
- (i) 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.
- (j) The Corporation may in its sole discretion waive the requirements set forth in clauses (e), (f), or (i) 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 (or the Designated Depository) (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-1 A02 – 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, Proprietary Swap 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;
- (d) unless the applicable Entity is applying to become a Limited Clearing Member or a Swap Clearing Member, the applicant has deposited with the Corporation its initial deposit with respect to the Core Tranche of 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;
- (e) unless the applicable Entity is applying to become a Limited Clearing Member, the applicant has provided the Corporation with its initial Supplemental Liquidity Contributions to the Supplemental Liquidity Fund in the amount and at the time required by the Rules and the Risk Manual;
- (f) the Swap Clearing Member has deposited with the Corporation its initial deposit with respect to the Swap Tranche of 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;
- (g) the Swap Clearing Member has provided the Corporation with its initial Supplemental Liquidity Contributions to the Swap Tranche of the Supplemental Liquidity Fund in the amount and at the time required by the Rules; and
- (k) the Swap Clearing Member may only submit for clearing Bilateral Swap Transactions for those persons identified in the definition of Proprietary Account.

Section A-1 A03- 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 request 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-1 A04- 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, contribution, 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-1 A05- 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-1 A06- 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-1 A07- 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-1 A08- 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-1 A09- 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; (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; or (c) the date on which the Corporation agrees to the withdrawal.
- (2) If the Withdrawal of a Clearing Member becomes effective while a Default Management period is ongoing; such withdrawal shall not occur and shall be postponed until the end of the Default Management Period, and the Clearing Member shall cease to be a Clearing Member on the date, as determined by the Corporation, on which the Clearing Member has satisfied all of its obligations toward the Corporation, or the date on which the Corporation agrees to the withdrawal.
- (3) Notwithstanding the provisions of Subsection A-1A09(2), during the prior notice period referred to under Subsection A-1A09(1), the Clearing Member shall be liable to the Corporation for:
 - (a) while the Clearing Member has outstanding positions, the obligations resulting from all Default Management Periods initiated during such prior notice period referred to under Subsection A-1A09(1);
 - (b) once all of the Clearing Member's positions have been closed, the obligations resulting from one (1) Default Management Period initiated after such close-out during the prior notice period referred to under Subsection A-1A09(1).
- (4) The Corporation shall notify all Clearing Members upon receipt of a notice of withdrawal pursuant to Section A-1A09(1).
- (5) 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-1 A10- 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-1 A11- 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-1 B - LIMITED CLEARING MEMBERS MEMBERSHIP

Section A-1 B01- 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.

(5) **No Supplemental Liquidity Fund Contribution**

Subject to applicable law, a Limited Clearing Member shall not be required to make Supplemental Liquidity Contributions to the Supplemental Liquidity Fund.

Section A-1 B02- 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-1 B03- 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-1 B04- 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:

Designated Rating Organization	Option A	Option 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 Section 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-1 B05 – 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:

Designated Rating Organization	Option A	Option 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-1 B06 – 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-1 B07 – 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 Section 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 Paragraph 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-1 B08- 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 Core 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 (or Swap Business Day, in the case of Swap Clearing Members) and 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) the client information corresponding with the Risk Account maintained by the Corporation under the GCM Regime, and the evidence that the relevant information



under Paragraph A-401(3)(b) has been provided to the client in order to enable a transfer by way of Porting;

- (g) if in respect of any OTCI or Proprietary Swap Transaction the trade details as specified in the Trade Confirmation; and
 - (h) 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 Subsection A-206(2) or in accordance with Subsection A-206(8) 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 (or Swap Business Day, in the case of Proprietary Swap Transactions) 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(8):
 - (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 Subsection A-206(2) or Subsection A-206(8), 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 or Swap Business Day, as applicable, 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 or Swap Business Day, as applicable.

For greater certainty, under Paragraph A-206(8)(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 or Swap Business Day, as applicable. 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 Approved Depository, any Designated Custodian, any Designated Depository, 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 Approved Depository, any Designated Custodian, any Designated Depository, 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 Approved Depository, any Designated Custodian, any Designated Depository, 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 Approved Depository, any Designated Custodian, any Designated Depository, 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, Designated Custodian or Designated Depository, as applicable.
- (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, if applicable, 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 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, Options and Futures or Proprietary Swap Transactions, 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 CIRO, 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 CIRO 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.

- (5) Notwithstanding Subsection A-301(2), a Swap Clearing Member must meet the following criteria:
- (a) If it is a Canadian Swap Clearing Member, have minimum capital equal to the greater of US\$100,000,000 or:
 - (i) For an SRO Clearing Member, the minimum capital adequacy requirement adopted from time to time by CIRO;
 - (ii) For a Bank Clearing Member, the minimum capital adequacy requirement adopted from time to time by the Office of the Superintendent of Financial Institutions;
 - (iii) For a Financial Institution Clearing Member, the minimum capital adequacy requirement adopted from time to time by a Regulatory Body having jurisdiction over the Financial Institution Clearing Member and which is determined by the Corporation to be comparable to the capital adequacy requirements applicable to a Bank Clearing Member;
 - (b) If it is a U.S. SRO Clearing Member, have minimum capital equal to the greater of US\$100,000,000 or the minimum capital adequacy requirement adopted from time to time by the CFTC, NFA, SEC or FINRA; or
 - (c) If it is a U.S. Bank Clearing Member, have minimum capital equal to the greater of US\$100,000,000 or the minimum capital adequacy requirement adopted from time to time by the FDIC, Federal Reserve or OCC, as applicable

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 CIRO).
- (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 U.S. SRO Clearing Member shall advise the Corporation immediately if such U.S. SRO Clearing Member fails to meet the minimum capital adequacy requirements that may be set from time to time by the CFTC, NFA, SEC or FINRA.
- (7) A U.S. Bank Clearing Member shall advise the Corporation immediately if such U.S. Bank Clearing Member fails to meet the minimum capital adequacy requirements that may be set from time to time by the FDIC, Federal Reserve or OCC, as applicable.
- (8) 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 U.S. SRO Clearing Member shall deliver to the Corporation one copy of such report as required and in the form prescribed by the CFTC, NFA, SEC or FINRA, as applicable demonstrating the U.S. SRO 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 CFTC, NFA, SEC or FINRA and promptly after such documents are provided to the CFTC, NFA, SEC or FINRA, as the case may be.
- (5) Each U.S. Bank Clearing Member shall deliver to the Corporation immediately one copy of such report as required and in the form prescribed by the FDIC, Federal Reserve or OCC, as applicable, demonstrating that the U.S. Bank 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 FDIC, Federal Reserve, or OCC, as applicable, and promptly after such documents are provided to the FDIC, Federal Reserve, or OCC, as applicable.
- (6) 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 Section 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 Clearing 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 any 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 Core Margin Deposits and/or Swap Margin Deposits, as applicable;
 - (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, (i) converting all amounts related to Core Products into Canadian currency and calculating one net amount (taking into account the Corporation's rights with respect to the Core Margin Deposit of such Clearing Member) owing to such Clearing Member by the Corporation or by such Clearing Member to the Corporation in Canadian currency, and (ii) converting all amounts related to Proprietary Swap Transactions into the lawful currency of the United States and calculating one net amount (taking into account the Corporation's rights with respect to the Swap Margin Deposit of such Clearing Member) owing to such Clearing Member by the Corporation or by such Clearing Member to the Corporation in United States currency;
 - (d) transferring, whether by way of transfer (outside of the Porting process), by way of assignment, by way of termination, close-out and re-establishment or otherwise, any Client Account or Market Maker Non-Firm 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 Core Margin Deposits and/or Swap Margin Deposits, as applicable, pursuant to Section A-607, Section A-704 or Section A-7A04; 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 Core Margin Deposit (including, without limitation, Core Margin and the Core Tranche of the Clearing Fund) and Swap Margin Deposit (including, without limitation, Swap Margin and the Swap Tranche of the 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 by way of Porting (i) individual client Open Positions (at the Risk Account level) and (ii) the Porting Core Base Initial Margin Collateral in the respective GCM Regime Margin Accounts and GCM Margin Deposit Accounts to a Receiving Clearing Member. To effectively protect the individual clients of a suspended Non-Conforming Clearing Member, the Corporation will use all reasonable efforts to primarily take the action contemplated in Paragraph A-401(3)(b) if it deems it is appropriate in the circumstances. In addition, each Clearing Member shall be required to inform its clients of the applicable requirements under Paragraph A-401(3)(b) in accordance with the Corporation's procedures (including informing the client to name a Receiving Clearing Member). The application of this requirement and of Paragraph A-205(1)(f) will be monitored by the Corporation; or
 - (c) terminating, closing out or liquidating any or all of the Clearing Member Transactions or Open Positions, and upon such close out, (i) converting all amounts relating to Core Products 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 in Canadian currency and (ii) converting all amounts related to Proprietary Swap Transactions into the lawful currency of the United States and calculating one net amount (taking into account the Corporation's rights with respect to the Swap Margin Deposit of such Clearing Member) owing to such Clearing Member by the Corporation or by such Clearing Member to the Corporation in United States currency;
- (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 (i) with respect to proceeds of Core Margin Deposits, in a special Canadian dollar account, to be known as the Liquidating Settlement Account (CAD), and (ii) with respect to proceeds of Swap Margin



Deposits, in a special United States dollar account, to be known as the Liquidating Settlement Account (USD), in each case for the purposes hereinafter specified. Core Margin Deposits in excess in GCM Margin Deposit Account and/or Non-GCM Margin Deposit Accounts shall not be subject to the control of the Corporation and shall be excluded from the Liquidating Settlement Account (CAD).

- (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), Core 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 Core 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, subject to the application of Deposits in accordance with the Default Waterfall, 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 each case in respect of Core Products in the Firm



Account shall be credited by the Corporation to the Liquidating Settlement Account (CAD);

- (d) monies owed to the Corporation in Settlement of Gains and Losses and/or Mark-To-Market Valuation in any account related to Core Products shall be withdrawn by the Corporation from the Liquidating Settlement Account (CAD);
- (e) monies owed to the Corporation in Settlement Amounts for settlements in respect of Core Products not yet paid, will remain in the Liquidating Settlement Account (CAD) in the form of Core Margin Deposits until the next available Settlement Time consistent with the Core Product Transaction from which the Settlement Amounts were derived; and
- (f) monies payable to the suspended Clearing Member in Settlement Amounts for settlements in respect of Core Products not yet paid, will remain in the Liquidating Settlement Account (CAD) in the form of Core Margin Deposits until the next available Settlement Time consistent with the Core Product 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 with respect to Core Products shall be withdrawn from the suspended Clearing Member's Liquidating Settlement Account (CAD); provided, however, that amounts payable to the Corporation in Settlement of Gains and Losses (i) 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 (CAD), and (ii) shall first be withdrawn from the funds available in a Core Margin Deposit Account. Amounts receivable by the suspended Clearing Member in Settlement of Gains and Losses and/or Mark-to-Market Valuation in respect of Core Products as a result of a closing transaction effected by the Corporation or the transfer of an Open Position with respect to Core Products shall be credited to the suspended Clearing Member's Liquidating Settlement Account (CAD). Amounts payable to the Corporation as a result of any close-out of Proprietary Swap Transactions shall be withdrawn from the suspended Clearing Member's Liquidating Settlement Account (USD) in accordance with these Rules, the Risk Manual and the Default Manual. Amounts receivable by the suspended Clearing Member in Swap Net Settlement Amount in respect of Proprietary Swap Transactions as a result of a closing transaction effected by the Corporation or the transfer of an Open Position with respect to Proprietary Swap Transactions shall be credited to the suspended Clearing Member's Liquidating Settlement Account (USD). 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 and Market Maker Non-Firm 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 and Market Maker Non-Firm 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 Firm 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 (CAD); 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 (CAD); 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 (CAD). 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 applicable 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 applicable 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 (CAD) 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 (CAD).

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 applicable 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 applicable 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 applicable Liquidating Settlement Account. The Corporation shall pay such claims, to the extent funds are available, from the applicable 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 applicable 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) or Subsection D-815(3), 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 Core Products for Non-delivered Assets, it will be entitled to terminate, on a *pro rata* basis, Transactions related to Core Products 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 applicable Cash Settlement Amount by offsetting the corresponding payment obligation of CDCC under any such terminated Transaction related to Core Products against the corresponding payment obligation of the affected Clearing Member under the original Transaction related to Core Products 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’ or Swap Business Day, as applicable, 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), with respect to Core Products, 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 related to Core Products entered into in respect of Client Accounts, a Final Settlement Amount for all Transactions related to Core Products entered into in respect of Market Maker Accounts and a Final Settlement Amount for all Transactions related to Core Products entered into in respect of Firm Accounts, all in accordance with Subsection A-409(11).

- (9) Upon the effective designation of an Early Termination Date pursuant to Subsection A-409(7) with respect to Proprietary Swap Transactions, neither CDCC nor the relevant Clearing Member will be obliged to make any further payment or delivery under the applicable Proprietary Swap 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 Proprietary Swap Transactions, all in accordance with Subsection A-409(11).
- (10) 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(11).
- (11) 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 for a particular product or group of products 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 for the same product or group of products 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 in respect of Core Products entered into in respect of Client Accounts, a Final Settlement Amount for all Transactions in respect of Core Products entered into in respect of Market Maker Accounts, a Final Settlement Amount for all Transactions in respect of Core Products entered into in respect of Firm Accounts and a Final Settlement Amount for all Proprietary Swap Transactions. The Final Settlement Amounts in respect of Core Products in respect of Client Accounts and the Final Settlement Amount in respect of Core Products in respect of Firm Accounts will not be netted or set-off. Final Settlement Amounts in respect of Core Products and Final Settlement Amounts in respect of Proprietary Swap Products will not be netted or set-off.
 - (b) **“Transaction Value”** means, with respect to (i) any Transaction or group of Transactions that are related to Core Products or (ii) any Proprietary Swap Transactions or group of Proprietary Swap Transactions, as applicable, 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.
- (12) 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 Core Products in 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. The Final Settlement Amount in respect of Proprietary Swap Transactions, 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.
- (13) 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.
- (14) 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).

(15)

- (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-2 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; (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.

- (4) For services related to Proprietary Swap Clearing, CDCC and each Clearing Member also acknowledge that:
- (a) each of the Membership Agreement and the Rules constitutes a “master netting agreement” as defined in the U.S. Bankruptcy Code (the “**Bankruptcy Code**”) and a “security agreement or arrangement” or “other credit enhancement”, each as defined in the Bankruptcy Code, that forms a part of or is related to one or more “commodity contracts” or “swap agreements” within the meaning of the Bankruptcy Code;
 - (b) each Transaction constitutes a “swap agreement” or “commodity contract,” each as defined in the Bankruptcy Code;
 - (c) CDCC constitutes a “financial participant” and “swap participant”, each as defined in the Bankruptcy Code;
 - (d) each Clearing Member constitutes a “commodity broker” and “swap participant”, each as defined in the Bankruptcy Code;
 - (e) the remedies provided herein are the remedies referred to in Sections 362(b)(6), (17), and (27), 362(o), 556, 560, and 561(a) of the U.S. Bankruptcy Code and Section 5(b)(2)(C) of the Securities Investor Protection Act (15 USC 78eee(b)(2)(C)); and
 - (f) all pledges or transfers of cash, securities, or other property under or in connection with any Transaction, the Membership Agreement, or the Rules are “transfers” made “by or to (or for the benefit of)” a “commodity broker,” “financial participant”, or “swap participant” under or in connection with one or more “commodity contracts” or “swap agreements” within the meaning of Section 546 of the Bankruptcy Code.

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 at the end of the Business Day following the declaration by the Corporation that the Default Management Process is completed and:

- (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 Corporation has successfully reestablished a matched book.

Section A-412- Restricted Clearing Member

- (1) A Clearing Member who is unable to meet an Overnight Margin Call or breaches certain risk exposure thresholds during the Overnight Clearing Cycle (as such term is defined in the Operations Manual) may be deemed by the Corporation as a Restricted Clearing Member.
- (2) In addition to a measure made available to the Corporation under the Rules and the Application for Membership, where a Clearing Member is deemed by the Corporation as a Restricted Clearing Member as provided for in the Operations Manual, 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, which could result in. Clearing Member's trading access and give-up agreements on the Montreal Exchange being restricted, and orders of the Clearing Member and of its Clients being canceled; and
 - (b) sanctioning, reprimanding, fining or imposing a penalty on the Clearing Member.

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 or US\$250,000 in the case of violations relating to Proprietary Swap Transactions, 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 A-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) or A-7A01(2), as applicable.
- (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 and Proprietary Swap Transactions)	● \$100,000 Cash.
(d) Fixed Income Transactions Clearing Base Deposit	● \$1,000,000 Cash.
(e) Swap Clearing Base Deposit	● US\$100,000 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. The Clearing Fund is composed of two Tranches, being the Core Tranche which is in respect of the Corporation's Core Business and the Swap Tranche which is in respect of Proprietary Swap Transactions. The Core Tranche and the Swap Tranche are each sized independently of the other in accordance with the Risk Manual.

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 aggregate required deposit of each Clearing Member to the Clearing Fund with respect to both the Core Tranche and the Swap Tranche 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;
 - (e) a Swap Clearing Base Deposit, if the Clearing Member has been accepted to clear Proprietary Swap Transactions; and
 - (f) a Variable Deposit in respect of each Tranche of the Clearing Fund, which shall be equal to the amount by which (i) the Clearing Member's required deposit to each Tranche of the Clearing Fund, calculated in accordance with the methodology set out in the Risk Manual, exceeds (ii) such Clearing Member's Base Deposits in respect of the applicable Tranche of the Clearing Fund.
- (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 the concerned Clearing Member(s) by delivering a Clearing Fund statement which shall set out the increase in the Variation Deposit determined by the Corporation in accordance with the Risk Manual in respect of the applicable Tranche or Tranches of the Clearing Fund and the approved form of such contribution to the Clearing Fund. The contribution of the additional Variable Deposits 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 Deposits 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 for each Tranche that shall list the current amount of such Clearing Member's deposits to the Clearing Fund with respect to such Tranche and the amount of deposit required of such Clearing Member for such Tranche. Any surplus over and above the amount required or any deficit to be satisfied will also be shown. A Clearing Fund statement for each Tranche 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 for a Tranche 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 for such Tranche, by 10 a.m. (no same-day contribution).

Section A-607- Withdrawals

In the event that the Clearing Fund statement of a Clearing Member for a Tranche shows a surplus, the Clearing Member may request the withdrawal of such surplus from such Tranche 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) or A-7A01(2), as applicable, 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) in accordance with the provisions of the Default Manual. 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) or A-7A01(2), as applicable, 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) or A-7A01(5), as applicable, 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(3), during a single Default Management Period with respect to a Tranche, the Corporation shall not, with respect to each Clearing Member that has not been suspended, apply more than 200% of the Clearing Fund deposit for such Tranche 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 or Swap Business Day, as applicable, 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 for such Tranche 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, in accordance with the Default Manual.
- (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-6 A - SUPPLEMENTAL LIQUIDITY FUND

Section A-6 A01 - Supplemental Liquidity Fund Maintenance and Purpose

- (1) The Corporation shall establish a Supplemental Liquidity 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 contributions in the Supplemental Liquidity Fund of the amounts from time to time required by the Corporation at its discretion, and determined as set forth in the Risk Manual. The Supplemental Liquidity Fund is composed of two Tranches, being the Core Tranche which is in respect of the Corporation's Core Business and the Swap Tranche which is in respect of Proprietary Swap Transactions. The Core Tranche and the Swap Tranche are each sized independently of the other in accordance with the Risk Manual. The Supplemental Liquidity Fund shall be used for the purposes set out in Section A-6A07.



- (2) The Supplemental Liquidity Fund is constituted of the aggregate amount of the Supplemental Liquidity Contributions in respect of each Tranche required from each Clearing Member at the close of each calendar month. Unless otherwise specified, the Supplemental Liquidity Fund shall not include any contributions made in excess of the amount of the Supplemental Liquidity Contributions required from each Clearing Member in accordance with the Risk Manual.
- (3) This Rule A-6A is not applicable to Limited Clearing Members.

Section A-6 A02- Amount of Supplemental Liquidity Contributions

Within a calendar month, if the Corporation determines that an increase to the Supplemental Liquidity Contributions is necessary to protect the Corporation from any existing or potential liquidity risks, the Corporation will notify the applicable Clearing Member(s) by delivering a Supplemental Liquidity Fund statement for such Tranche which shall set out the increase in the amount of its Supplemental Liquidity Contributions to the Supplemental Liquidity Fund in respect of each Tranche as determined by the Corporation in accordance with the Risk Manual. The Supplemental Liquidity Contribution to the Supplemental Liquidity Fund by the concerned Clearing Member must be received by the Corporation on the following Business Day, (T+1) by 10 a.m. (no same-day contribution).

Section A-6 A03 - Supplemental Liquidity Fund Statement

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

Section A-6 A04 - Additional Supplemental Liquidity Contributions

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

Section A-6 A05 - Withdrawals

In the event that the Supplemental Liquidity Fund statement of a Clearing Member for a Tranche 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-6 A06 - Form of Supplemental Liquidity Contributions

- (1) Supplemental Liquidity Contributions to the Supplemental Liquidity Fund shall be in the form of Cash. Contributions 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 Supplemental Liquidity Fund Contributions shall be deemed to be deposited with the Corporation at the time the Corporation accepts the Cash.

Section A-6 A07 - Application of Supplemental Liquidity Fund

- (1) Subject to Section A-6 A07(2), the Supplemental Liquidity Fund can be used by the Corporation to meet any liquidity obligations or exposures (such as mark-to market payments and settlements) suffered by the Corporation at any time, whether arising during or resulting from a Default Management Period or not; provided, however, that the Supplemental Liquidity Fund cannot be used in the allocation of, or for the payment of, residual credit losses or for general corporate purposes. Subject to the provisions of Subsection A-6A07(2), all amounts from the Supplemental Liquidity Fund used by the Corporation shall be paid back by the Corporation to the Supplemental Liquidity Fund as soon as practicable.
- (2) Without limiting the generality of Subsection A-6A07(1), (i) the Corporation shall be authorized to use a suspended Clearing Member's Supplemental Liquidity Contributions for the Core Tranche, as well as the Supplemental Liquidity Contributions required of all other Clearing Members for such Tranche, in order for the Corporation to meet any liquidity obligations or exposure suffered by the Corporation during a Default Management Period related to the Core Business and (ii) the Corporation shall be authorized to use a suspended Clearing Member's Supplemental Liquidity Contributions for the Swap Tranche, as well as the Supplemental Liquidity Contributions required of all other Clearing Members for such Tranche, in order for the Corporation to meet any liquidity obligations or exposure suffered by the Corporation during a Default Management Period related to Proprietary Swap Transactions. For greater certainty, the Supplemental Liquidity Contributions for the Core Tranche are only available to meet any liquidity obligations or exposures relating to the Core Business and the Supplemental Liquidity Contributions for the Swap Tranche are only available to meet any liquidity obligations or exposures relating to Proprietary Swap Transactions. Subject to provisions of the Default Manual, all amounts from the Supplemental Liquidity Fund used by the Corporation shall be paid back by the Corporation to the Supplemental Liquidity Fund for such Tranche after the Default Management Period had ended, unless such amounts represent the Supplemental Liquidity Contributions of the suspended Clearing Member for such Tranche and were allocated by the Corporation to cover credit losses as part of the Default Waterfall.
- (3) Whenever the Corporation wishes to use any amounts from the Supplemental Liquidity Fund, the Corporation shall promptly notify each Clearing Member of the amount to be used and the reasons therefor.

- (4) Without limiting the rights of the parties under Section A-6A05 and Subsections A-6A07(1) and (2), at the sole discretion of the Corporation, all Cash deposited with the Corporation as Supplemental Liquidity Contributions 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 to obtain liquidity for the purpose of assisting the Corporation to honour any liquidity obligations or exposure on a timely basis. The Corporation shall be deemed to continue to hold all Cash contributed to the Supplemental Liquidity Fund, regardless of whether the Corporation has exercised its rights under this Subsection A-6A07(4).
- (5) Without limiting the rights of the Corporation under Subsections A-6A07(2) and A-6A07(4), during a single Default Management Period with respect to a Tranche, the Corporation shall not, with respect to each Clearing Member that has not been suspended, apply more than 200% of the Supplemental Liquidity Contributions for such Tranche required by such Clearing Member as of the date of the commencement of the Default Management Period to handle any liquidity obligations or exposure it may encounter during the applicable Default Management Period.
- (6) Each Clearing Member grants to the Corporation a first ranking pledge and hypothec over all Supplemental Liquidity Contributions. This pledge shall secure the payment of any liquidity obligations or exposure that the Corporation may suffer from time to time. The Clearing Member shall execute and deliver (or cause to be executed and delivered) such 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.
- (7) The Corporation may at its sole discretion grant a pledge or a hypothec over or transfer all property provided as Supplemental Liquidity Contributions 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 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 or a hypothec over or transfer such Clearing Member's Supplemental Liquidity Contributions before doing so with respect to the Supplemental Liquidity Contributions of other Clearing Members. The Corporation shall be deemed to continue to hold all Supplemental Liquidity Contributions regardless of whether the Corporation has exercised its rights under this Subsection A-6A07(7).

Section A-6 A08 - Making Good on Charges to Supplemental Liquidity Fund

Whenever the Corporation uses Supplemental Liquidity Contributions for a Tranche from the Clearing Members that have not been suspended, in accordance with Subsection A-6A07(2), such Clearing Members shall be liable to make good the deficiency, if any, in their contributions resulting from such use on the Business Day or Swap Business Day, as applicable, following the date that the Supplemental Liquidity Contributions are used (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 a maximum of 200% of the



amount of their Supplemental Liquidity Contributions for such Tranche required at the beginning of the Default Management Period as prescribed by the Rules.

Section A-6 A09 - Contributions refund

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 Supplemental Liquidity Contributions.



Rule A-7 - MARGIN REQUIREMENTS

Section A-701 – Core Margin Maintenance and Purpose

- (1) Prior to the Settlement Time on every Business Day, every Clearing Member shall be obligated to deposit Core 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 (other than Proprietary Swap Transactions), 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-707 has been deposited with the Corporation. When determining whether additional Core Margin is required from a Clearing Member, the Corporation shall take into account, subject to Subsection A-704(2), all Core 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 Core Margin Deposit (including, without limitation, Core Margin and the Core Tranche of the Clearing Fund), subject to Subsection A-701(3), and in accordance with the Default Manual, 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;
 - (g) as provided in the Default Manual in respect of any obligations of such Non-Conforming Member in respect of Proprietary Swap Transactions; or
 - (h) 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 Core Margin and the Core Tranche of the 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 the Core Tranche of the Clearing Fund, 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, Core 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 Core 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 Margin Deposits as securing the obligations in respect to each of the corresponding Margin Deposit Account. 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 Core 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 Core 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 Core 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 Core 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 with respect to Core Products the reports which shall show the amount of Core Margin required to be deposited by virtue of the Clearing Member's positions in respect of Core Products. All Core 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 Core Margin required to be deposited, so that the Core Margin requirements are met before Settlement Time each Business Day.

Section A-704- Withdrawals of Core Margin

- (1) Subject to Subsection A-704(2), in the event that on any particular day the amount of a Clearing Member's Core 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 Core 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 Core Margin requirements in respect of a Client Account or Market Maker Account. If a Clearing Member has excess Core 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 Core Margin requirements in respect of a Firm Account; provided, however, that if the Clearing Member does not identify its Core Margin Deposits with respect to



each of its accounts, the Corporation shall apply the Core Margin deposited by a Clearing Member at the Core Margin Deposit Account level using the following rule: if a Clearing Member has excess Core Margin deposited in respect of a Firm Margin Deposit Account, the Corporation shall be entitled to apply such excess (or a portion thereof) as is necessary to meet the Core Margin requirements in respect of a GCM Regime Margin Deposit Account and a Non-GCM Regime Margin Deposit Account. If a Clearing Member has excess Core Margin deposited in respect of the GCM Regime Margin Deposit Account or the Non-GCM Regime Margin Deposit Account, the Corporation shall not be entitled to apply such excess (or a portion thereof) to meet the Core Margin requirements in respect of any other Margin Deposit Account. Excess Core Margin will be identified and monitored by the Corporation.

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 Core 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 Core Margin, the Corporation shall be entitled, upon determining that supplementary Core Margin is required in accordance with Subsection (2) above, immediately to apply such portion of the excess Margin as is necessary to meet the supplementary Core 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 Core Margin required. Such supplementary Core 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 Core Margin deposits, shall be reflected on the Daily Settlement Summary Report on the following Business Day.

Section A-706- Overnight Margin Calls

- (1) The Corporation may perform Overnight Margin Calls and require the deposit of supplementary Core Margin (other than Margin required pursuant to Rule D-607) by any Clearing Member in any account at any time during the Overnight Clearing Cycle (as such term is defined in the Operations Manual) 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.
- (2) Subject to Subsection A-704(2), if a Clearing Member has excess Core Margin, the Corporation shall be entitled, upon determining that supplementary Core Margin is required in accordance with Subsection (1) above, immediately to apply such portion of the excess Margin as is necessary to meet the supplementary Core 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 Core Margin required. Such supplementary Core 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 Core Margin deposits, shall be reflected on the Daily Settlement Summary Report on the following Business Day.

Section A-707- Underlying Interest and Underlying Interest Equivalent

Clearing Members shall NOT be required to deposit Core 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-708 equal in value to the aggregate current value (which for the purposes of this Section A-707 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 Core Margin requirements on the Underlying Interest or Underlying Interest Equivalent as determined by the Corporation.

Section A-708- Eligible Collateral

- (1) Core 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:
 - (a) Cash – Clearing Members may deposit Cash by way of an irrevocable funds transfer to the Corporation. Funds 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.

- (b) 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.
 - (c) 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-708(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.
 - (d) The Debt Securities shall be deemed to be deposited with the Corporation at the time the Corporation accepts the Debt Securities as Core 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.
 - (e) Valued Securities – In addition to the Underlying Interest and Underlying Interest Equivalent which may be deposited under Section A-707, Clearing Members may deposit with the Corporation certain Valued Securities . The Valued Securities shall be deemed to be deposited with the Corporation at the time the Corporation accepts the Valued Securities as Core Margin.
- (2) 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-7A – SWAP MARGIN REQUIREMENTS

Section A-7A01– Swap Margin Maintenance and Purpose

- (1) Prior to the Settlement Time on every Swap Business Day, every Swap Clearing Member shall be obligated to deliver Required Swap Margin as determined by the Corporation in accordance with the Swap Margin requirement methodology set out in the Risk Manual, in respect of all Proprietary Swap Transactions entered into by the Swap Clearing Member and outstanding on the Calculation Date relating to such Swap Business Day, with the Corporation. When determining whether additional Swap Margin is required from a Swap Clearing Member, the Corporation shall take into account all Swap Margin delivered by the Swap Clearing Member and not returned by the Corporation to the Swap Clearing Member.
- (2) The Corporation shall apply the suspended Non-Conforming Member's Swap Margin Deposit (including, without limitation, Swap Margin and the Swap Tranche of the Clearing Fund), subject to Subsection A-7A01(3), to the discharge of:
 - (a) the Non-Conforming Member's obligation with respect to any Proprietary Swap 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 any Proprietary Swap Transaction 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 Proprietary Swap Transactions;
 - (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 any Proprietary Swap Transaction; or
 - (f) any other situation determined by the Board.
- (3) Each Swap Clearing Member grants to the Corporation a first ranking pledge over all property (including without limitation Swap Margin and the Swap Tranche of the Clearing Fund) that constitutes Swap 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 Swap Clearing Member of all of its obligations to the Corporation and, to the extent such pledge relates to the Swap Tranche of the Clearing Fund, 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. The Swap 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 Swap Clearing Member; provided that the failure by the Corporation to request or by the Swap 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, without limiting the right of the Corporation to invest the Swap Margin Deposits in the form of cash under Subsections A-608(1) and A-7A07(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 Swap Margin Deposit by a Swap 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-7A01(2), the Corporation may at its sole discretion grant a pledge over or transfer all property deposited as Swap Margin Deposit (including, without limitation, Swap Margin and Swap Tranche of the Clearing Fund) by a Swap 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 Swap Clearing Member as being a suspended Swap Clearing Member. In such circumstances, the Corporation shall grant a pledge over or transfer such Swap Clearing Member's Swap Margin Deposits before doing so with respect to the Swap Tranche of the Clearing Fund deposits of other Swap Clearing Members, in accordance with Subsection A-609(4). The Corporation shall be deemed to continue to hold all Swap Margin Deposits regardless of whether the Corporation has exercised its rights under this Subsection A-7A01(5).
- (6) Any account or sub-account of a Swap Clearing Member with the Corporation that reflects Financial Assets deposited with the Corporation by or on behalf of such Swap Clearing Member for Swap 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-7A02 - Discretionary Swap Margin Rule

The amount of Swap Margin which may be required from a Swap Clearing Member pursuant to this Rule A-7A 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-7A03 - Daily Swap Margin Activity

- (1) Each Swap Business Day, the Corporation shall make available to each Swap Clearing Member the reports which shall show the Required Swap Margin in respect of the Swap Clearing Member's positions under Proprietary Swap Transactions as set out under the Operations Manual and the Risk Manual. All Required Swap Margin shall be satisfied by the applicable Settlement Time on each Swap 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 Swap Clearing Member, it shall be the responsibility of that Swap Clearing Member to ascertain from the Corporation the amount of Required Swap Margin to be delivered by that Swap Clearing Member so that the Swap Margin requirements are met before the Settlement Time each Swap Business Day.

Section A-7A04 - Withdrawals of Swap Margin

In the event that on any particular day the amount of a Swap Clearing Member's Swap Margin Fund Account exceeds the Required Swap Margin on such day pursuant to this Rule A-7A, the Corporation shall authorize the withdrawal of the amount of the excess upon the submission to the Corporation, by such Swap Clearing Member during the hours specified by the Corporation, of a withdrawal request in the form prescribed by the Corporation provided that the Swap Clearing Member shall provide the Corporation with sufficient prior notice of such withdrawal request as set out in the Operations Manual.

Section A-7A05 - Intra-Day Swap Margin Calls

- (1) Section 2 of the Operations Manual specifies the time of the Intra-Day Swap Margin Calls.
- (2) The Corporation may also perform additional Intra-Day Swap Margin Calls and require the delivery of supplementary Swap Margin by any Swap Clearing Member in any account at any time during any Swap Business Day which the Corporation, in its sole discretion, considers necessary or advisable to reflect changes during such day in the price level of any Eligible Basket or Eligible Index in order to protect the Corporation, Swap Clearing Members or the public.
- (3) If a Swap Clearing Member has excess Swap Margin, the Corporation shall be entitled, upon determining that supplementary Swap Margin is required in accordance with Subsection (2) above, immediately to apply such portion of the excess Margin as is necessary to meet the supplementary Swap Margin requirements. The Corporation shall notify the Swap Clearing Member as soon as practicable of such application. If there is no excess Swap Margin then on deposit, the Corporation will notify the Swap Clearing Member of the amount of supplementary Swap Margin required. Such supplementary Swap Margin shall be deemed to be owing upon a Swap Clearing Member receiving notice thereof and shall be delivered by the Swap Clearing Member within one hour of the Swap 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 Swap Margin deposits, shall be reflected on the Daily Settlement Summary Report on the following Swap Business Day.

Section A-7A06 - Settlement of Required Swap Margin

- (1) Each Swap Clearing Member is responsible for ensuring that there are sufficient funds and/or Securities, as applicable, in respect of the Proprietary Swap Transactions with the Designated Custodian, Designated Depository, or transferred to a Designated Financial Institution, as applicable, to satisfy its Required Swap Margin obligations as they become due.
- (2) If the Corporation does not have sufficient liquidity to pay all the Swap Net Settlement Amount it owes to Swap Clearing Members on a given Settlement Date, the Corporation shall fail to pay pro rata among such Swap Clearing Members and that event shall constitute a Payment Default trigger under Paragraph A-409(5)(a) in respect of the affected Swap Clearing Members.



Section A-7A07 - Eligible Collateral

- (1) Required Swap Margin may be fulfilled by depositing or transferring, 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:
 - (a) Cash – Swap Clearing Members may deposit U.S. Cash by way of an irrevocable funds transfer to the Corporation. Funds 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 Swap 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.
 - (b) Debt – Swap Clearing Members may deposit with the Corporation Debt Securities. The Corporation establishes, reviews on a regular basis and publishes the list of eligible Debt Securities on its web site.
 - (c) 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-7A07(1) shall be determined on the close of each Swap 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-Swap Business Day, and the data supply service does not provide a market value for such day, the market value on the immediately preceding Swap 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.
 - (d) Debt Securities shall be deemed to be deposited with the Corporation at the time the Corporation accepts the Debt Securities as Swap Margin. All interest or gain received or accrued on such Debt Securities prior to any sale or negotiation thereof shall belong to the depositing Swap Clearing Member and such interest will be paid to such depositing Swap Clearing Member by the relevant issuer.
 - (e) Valued Securities – Swap Clearing Members may deposit with the Corporation certain Valued Securities. The Valued Securities shall be deemed to be deposited with the Corporation at the time the Corporation accepts the Valued Securities as Swap Margin.
- (2) 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 Swap 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, Core Margin and Swap Margin obligations and obligations in respect of the Core Tranche and the Swap Tranche of the Clearing Fund required in connection with such activities.
- (2) For greater certainty, subject to any Rule which expressly prohibits netting, on each Business Day:
 - (a) in respect of Core Products, 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) the Corporation shall net payments relating to Proprietary Swap Transactions in accordance with Section D-815(3) and for greater certainty, the Swap Net Settlement Amount shall not be netted against the Required Swap Margin;
 - (c) subject to Subsection A-704(2), the Corporation shall have the right to net Core Margin requirements, other than the Net Variation Margin Requirement under Section D-607, owing by a Clearing Member in respect of one product constituting a Core Product on such Business Day against excess Core Margin delivered by such Clearing Member and available in respect of another product constituting a Core Product on such Business Day such that Core 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;
 - (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 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;
 - (e) 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 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 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
- (6) Notwithstanding anything else in this Section A-801, payment obligations and delivery obligations in respect of Core Products will not be netted against payment obligations and delivery obligations in respect of Proprietary Swap Transactions at any time prior to a Clearing Member having become a Non-Conforming Member.

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 Paragraph 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 Subsection 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 Subsections 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 Paragraph A-801(5) 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 Paragraph A-801(5) 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 other than Proprietary Swap Transactions.

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

“Similar Instruments” – means 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 such 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 (10) of the Section A-902 or which may be set forth as interpretations and policies under this Section A-902, it shall be the general rule that adjustments on Securities Options, as defined in Section B-601, where the Underlying Interest is a class of Canadian depositary receipt, shall reflect such adjustments made by the issuer of such Canadian depositary receipt.
- (12) Notwithstanding the general rules set forth in Subsections (3) through (11) 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, subject to approval by the Board, declare the commencement of a Recovery Process 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 resources available through the Default Waterfall; 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 or Swap Business Day, as applicable, 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 or Swap Business Days, as applicable, 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 Subsection 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 or Swap Business Day, as applicable, 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 Subsection 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 an 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.
- (d) In respect of all Proprietary Swap Transactions to which a Clearing Member is a party on a Calculation Date, the Swap Net Settlement Amount which was required in respect of a Proprietary Swap Transaction on the Calculation Date.
- (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 or Swap Business Day, as applicable, 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 (i) a net Retained Amount with respect to Core Products 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 and (ii) a net Retained Amount with respect to Proprietary Swap Transactions by aggregating the Qualified Amount in respect of all Proprietary Swap Transactions, in each case, 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 (other than Proprietary Swap 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 (other than Proprietary Swap 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 (other than Proprietary Swap 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 available pursuant to the Default Waterfall and the Retained Amounts, 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 in respect of Core Products 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 in respect of Core Tranche required at the beginning of the Default Management Period by the aggregate amount of Clearing Fund deposits for the Core Tranche required at the beginning of the Default Management Period of all Clearing Members other than the suspended Clearing Members.

- (3) The Corporation shall determine the total amount of the Recovery Loss Cash Payment in respect of Proprietary Swap Transactions 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 in respect of the Swap Tranche required at the beginning of the Default Management Period by the aggregate amount of Clearing Fund deposits for the Swap Tranche required at the beginning of the Default Management Period of all Clearing Members other than the suspended Clearing Members.
- (4) The Corporation shall notify each Clearing Member that is not a suspended Clearing Member of the amount payable by such Clearing Member as a Recovery Loss Cash Payment in respect of each of Core Products and Proprietary Swap Transactions.
- (5) 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 for such Tranche required at the beginning of the Default Management Period.
- (6) A Recovery Loss Cash Payment shall be paid by each Clearing Member no later than the first Settlement Time on the Business Day or Swap Business Day, as applicable, 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.
- (7) 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.
- (8) The Corporation shall (i) use the Recovery Loss Cash Payments in respect of the Core Tranche of the Clearing Fund after exhausting the resources available to the Corporation as part of the Default Waterfall and the Retained Amounts in respect of Core Products for the sole purpose of satisfying or otherwise settling Recovery Losses incurred by the Corporation in connection with the Recovery Event in respect of Core Products, and (ii) use the Recovery Loss Cash Payments in respect of the Swap Tranche of the Clearing Fund after exhausting the resources available to the Corporation as part of the Default Waterfall and the Retained Amounts in respect of Proprietary Swap Transactions for the sole purpose of satisfying or otherwise settling Recovery Losses incurred by the Corporation in connection with the Recovery Event in respect of Proprietary Swap Transactions.

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 suspended Clearing Member's Fixed Income Transactions and/or Proprietary Swap Transactions (a "**Recovery Auction**").
- (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 and Proprietary Swap 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 and in the Default Manual.
- (2) The Corporation may implement Voluntary Contract Tear-Up for any Futures, Options, Over-the-Counter Instruments or Proprietary Swap Transactions cleared by the Corporation.
- (3) On the Business Day or Swap Business Day, as applicable, 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 or Swap Business Day, as applicable, in respect of any of the suspended Clearing Member’s Open Positions which have not been terminated. At the end of that same Business Day or Swap Business Day, as applicable, 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, provided that for Proprietary Swap Transactions, the suspended Clearing Member’s Open Position can only be torn-up with the original counterparty of such Proprietary Swap Transaction. At the Close of Business on that same Business Day or Swap Business Day, as applicable, 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 the Default Manual, 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 Futures 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 Options 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 or Proprietary Swap 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 for Fixed Income Transactions or the Swap Net Settlement Amount pursuant to Rule D-8 for Proprietary Swap Transactions, as applicable. The Corporation shall terminate any other outstanding payment or transfer obligations in respect of all the Fixed Income Transactions or Proprietary Swap 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 Paragraph 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 Paragraph 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.
 - (d) The Corporation shall then calculate for each Clearing Member, in respect of all Proprietary Swap Transactions which the Clearing Member has agreed to terminate, the Clearing Member’s final Swap Net Settlement Amount associated with the Open Positions which have been terminated. Such Swap Net Settlement Amount shall be required to be deposited by the usual Settlement Time for the Swap Net Settlement Amount.

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 Amounts 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 Amounts 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 Amounts 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 Amounts 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).

[...]

RULE D-8 - CLEARING OF PROPRIETARY SWAP TRANSACTIONS

The Sections of this Rule D-8 are applicable only to the clearing of Proprietary Swap Transactions by the Corporation.

Section D-801 - Definitions

Notwithstanding Section A-102, for the purposes of Proprietary Swap Clearing, the following terms are defined as follows:

“Acceptable Intermediary” – means a qualified entity that is identified on the TRS Portal as an “Acceptable Intermediary” that is permitted to submit Proprietary Swap Transactions on a Swap Clearing Member’s behalf.

“Actual/360” – means the actual number of days since the last Settlement Date for which payment was made under a Proprietary Swap Transaction divided by 360.

“Affected Share” – means a Basket Share of an Issuer which is subject to a Corporate Action or an Extraordinary Event.

“Affected Swap Clearing Member” – means a Swap Clearing Member which is party to a Proprietary Swap Transaction with an Applicable Underlying with Affected Shares or that is subject to an Index Adjustment Event, as applicable.

“Amendment Effective Date” – has the meaning set out in Section D-806.

“Announcement Date” – means (i) in the case of an Index Disruption or Index Cancellation, the date of the first public announcement by the Eligible Index Sponsor of any adjustment or cancellation as described in Section D-814(2) that leads to the Index Disruption or Index Cancellation, (ii) in the case of an Index Modification, the Swap Business Day immediately prior to the effective date of the Index Modification, (iii) in the case of a Nationalization, the date of the first public announcement to nationalize (whether or not subsequently amended) that leads to the Nationalization, (iv) in the case of an Insolvency, the date of the first public announcement of the institution of a proceeding or presentation of a petition or passing of a resolution (or other analogous procedure in any jurisdiction) that leads to the Insolvency, and (v) in the case of a Delisting, the date of the first public announcement by the relevant Exchange that the Basket Shares will be subject to the Delisting.

“Applicable Underlying” – means, with respect to a Proprietary Swap Transaction, each Basket Share or Eligible Index related to the Equity Leg of such Proprietary Swap Transaction.

“Basket Share” – means each share included in an Eligible Basket.

“Bilateral Swap Transaction” – means the terms of a bilateral over-the-counter equity total return swap transaction relating to a single Eligible Index or an Eligible Basket submitted for Proprietary Swap Clearing in accordance with this Rule D-8 on behalf of two Swap Clearing Members pursuant to which one Swap Clearing Member agrees to act as Equity Amount Payer and the other Swap Clearing Member agrees to act as Floating Rate Payer.

“Calculation Date” – means, with respect to a Proprietary Swap Transaction, each Exchange Business Day during the Term, with the first Calculation Date for a Proprietary Swap Transaction commencing on the Exchange Business Day immediately following the Trade Date.

“Cash Consideration Amount” – has the meaning set out in Section D-814(2).

“Cash Distribution” – has the meaning set out in Subsection D-807.1(1).

“Corporate Action” – means a Cash Distribution, a Share Distribution, a Share Split, a Share Consolidation or a Rights Issue.

“Corporate Action Policy” – means the corporate action policy for Proprietary Swap Clearing adopted by the Corporation and published on the TRS Webpage from time to time.

“Corporate Action with Options” – means a Corporate Action for which the shareholders of an Issuer can choose between options, failing which the Issuer or the market provides for a default option.

“Currency Business Day” – means a day on which commercial banks are open for business in the principal financial centre of the currency of such payment. In the case of the lawful currency of the United States of America, any day on which the United States Federal Reserve System or Federal Reserve Bank of New York are open shall be a Currency Business Day.

“Daily Equity Payment Obligation” – means in respect of all Proprietary Swap Transactions for each Swap Clearing Member on a Settlement Date, the net amount owing by or to the Corporation in respect of the Equity Legs of all such Proprietary Swap Transactions, provided that, for greater certainty, the Daily Equity Payment Obligation does not include any Swap Margin.

“Daily Floating Payment Obligation” – means in respect of all Proprietary Swap Transactions for each Swap Clearing Member on a Settlement Date, the net amount owing by or to the Corporation in respect of the Floating Legs of all such Proprietary Swap Transactions, provided that, for greater certainty, the Daily Floating Payment Obligation does not include any Swap Margin.

“Day Count Convention” – means, with respect to a Proprietary Swap Transaction, Actual/360.

“Delisting” – means, in respect of a Basket Share, when the relevant Exchange on which the Basket Share is listed and traded announces that pursuant to the rules of such Exchange, the Basket Share ceases (or will cease) to be listed, traded or publicly quoted on such Exchange for any reason (other than via a Transformation Event) and are not immediately re-listed, re-traded or re-quoted on an Exchange or quotation system located in the same country as such Exchange, and included in the relevant Eligible Index.

“De-merger” – means when an Issuer undergoes a corporate restructuring by subdividing, selling or distributing all, substantially all, or a material portion of assets or operations into components or separate legal entities to operate independently or be divested, including by way of a Spin-off.

“Designated Custodian” – means such regulated financial institution or trust company published on the TRS Webpage from time to time as a “Designated Custodian” by the Corporation where the Corporation has an account in its name.

“Designated Depository” – means DTC or such other regulated financial institution or trust company published on the TRS Webpage from time to time as a “Designated Depository” by the Corporation where assets pledged to the Corporation as Swap Margin are held in an account in the name of the Corporation.

“Designated Financial Institution” – means a financial institution, regulated by the OCC, published on the TRS Webpage from time to time as a “Designated Financial Institution” by the Corporation where cash is held in an account in the name of the Corporation.

“Dividend Amount” – means, in respect of an Affected Share, the Ex Amount multiplied by the number of Basket Shares that are Affected Shares in the Eligible Basket underlying the Proprietary Swap Transaction.

“Dividend Payment Date” – has the meaning set out in Subsection D-807.1(1).

“Dividend Period” – means, with respect to a Proprietary Swap Transaction where the underlying includes an Affected Share, the period that commences on, but excludes, the Trade Date and ends on, and includes, the Maturity Date, or if such Proprietary Swap Transaction is terminated early, the Swap Business Day prior to the last Settlement Date for such Proprietary Swap Transaction.

“Early Termination Option” – means the ability of the Corporation or a Swap Clearing Member party to a Proprietary Swap Transaction to unilaterally terminate a Proprietary Swap Transaction prior to its Maturity Date, as such option is submitted in the Economic Terms for such Proprietary Swap Transaction.

“Early Unwind Date” – has the meaning set out in Section D-814(2).

“Economic Terms” – means the transactional details of a Proprietary Swap Transaction as set out in Section D-803(1).

“EFFR Rate” – means the effective federal funds rate published by the Federal Reserve Bank of New York on each Swap Business Day.

“Eligible Basket” – means a collection of shares (a)(i) comprised of 10 or more Eligible Shares, (ii) of which no Eligible Share is weighted at 30% or more, (iii) of which the five most heavily weighted Eligible Shares are weighted at no more than 60% in the aggregate, and (iv) the lowest weighted Eligible Shares comprising in the aggregate 25% of the weighting of the Eligible Basket have a minimum aggregate dollar value of average daily trading volume (“ADTV”) over the preceding 6 full calendar months of US \$50 million or more (or in the case of an index with more than 15 Eligible Shares, US \$30 million or more), or (b)(i) comprised of 9 or more Eligible Shares, (ii) of which no Eligible Share is weighted at 30% or more, (iii) all of the Eligible Shares are registered under Section 12 of the 1934 Act, and (iv) each Eligible Share is one of the 750 securities with the largest market capitalization and one of the 675 securities with the largest dollar value of ADTV over the preceding 6 full calendar months among the 1934 Act securities. For the avoidance of doubt, an Eligible Basket cannot meet the definition of a “narrow-based securities index” under Section 3(a)(55) of the 1934 Act and the rules of the SEC thereunder.

“Eligible Index” – means (i) the S&P 500® Index, a product of S&P Dow Jones Indices LLC, (ii) the Russell 1000 Index, a product of FTSE International Limited and Frank Russell Company, members of London Stock Exchange Group plc., and (iii) such other index designated as an “Eligible Index” on the TRS Webpage from time to time by the Corporation.

“Eligible Index Sponsor” – means, (i) with respect to the S&P 500 Index, S&P Dow Jones Indices LLC, (ii) with respect to the Russell 1000 Index, FTSE International Limited and Frank Russell Company and (iii) with respect to any other Eligible Index, as such other index sponsor designated as an “Eligible Index Sponsor” on the TRS Webpage from time to time by the Corporation.

“Eligible Shares” – means shares denominated in the lawful currency of the United States of America which are included by the Eligible Index Sponsor in an Eligible Index.

“Equity Amount” – means, in respect of a Calculation Date with respect to each Applicable Underlying in connection with a Proprietary Swap Transaction, the product of the Equity Notional Amount as determined on such Calculation Date multiplied by the Rate of Return in respect of such Calculation Date.

“Equity Amount Payer” or **“Floating Rate Receiver”** – means, in respect of a Swap Clearing Member, such Swap Clearing Member who is the equity amount payer under a Proprietary Swap Transaction and who becomes the equity amount payer to the Corporation upon acceptance of the Proprietary Swap Transaction by the Corporation, and in respect of the Corporation, the Corporation when it has assumed the position of the equity amount payer under a Proprietary Swap Transaction pursuant to Section D-805(1). The term “Equity Amount Payer” will be used when referring specifically to the Equity Leg of a Proprietary Swap Transaction, whereas the term “Floating Rate Receiver” will be used when referring specifically to the Floating Leg of a Proprietary Swap Transaction.

“Equity Leg” – means, with respect to a Proprietary Swap Transaction, the part of a Proprietary Swap Transaction where the payment is based on the performance of an Eligible Basket or Eligible Index.

“Equity Notional Amount” – means, with respect to each Proprietary Swap Transaction, (a) on the initial Calculation Date, the Initial Notional Amount, and (b) in respect of each Calculation Date thereafter, the Equity Notional Amount as of the previous Calculation Date plus or minus, as applicable, the Net Equity Amount calculated in respect of such previous Calculation Date.

“Ex Amount” – means, in relation to a Cash Distribution, 100% of the gross cash dividend or distribution per Basket Share declared by the Issuer to holders of record of a Basket Share.

“Ex-Dividend Date” – means, in relation to a Cash Distribution and a Basket Share, the date that such Basket Share commences trading ex-dividend on the relevant Exchange.

“Exchange” – means, in relation to a Basket Share in an Eligible Basket derived from an Eligible Index, an exchange or quotation system located in the United States of America for the Issuer of that Basket Share.

“Exchange Business Day” – means, (a) with respect to a Proprietary Swap Transaction with an Applicable Underlying which is an Eligible Basket, any day on which an Exchange selected by the Corporation in its discretion is open for trading during its regular trading sessions, notwithstanding any such Exchange closing prior to its scheduled weekday closing time; *provided that*, if, on such day, the Price Source does not publish a price level for an applicable Eligible Share traded on such Exchange, without regard to after hours or any other trading outside of the regular trading session hours, the Corporation has the discretion to use the price level for such Eligible Share as of the last day for which the price level was published by the Price Source, and in which case such day will be deemed to be an “Exchange Business Day”, and (b) with respect to a Proprietary Swap Transaction with an Applicable Underlying which is an Eligible Index, any day on which the Eligible Index Sponsor calculates and announces the price level of such Eligible Index; *provided that*, if, on such day, the Price Source does not publish a price level for the applicable Eligible Index, the Corporation has the discretion to use the price level for such Eligible Index as of the last day for which the price level was published by the Price Source, and in which case such day will be deemed to be an “Exchange Business Day”.

“Extraordinary Event” – means a Merger, a De-merger, a Delisting, a Suspension, an Insolvency or a Nationalization.

“Final Price” – means, in respect of a Proprietary Swap Transaction and a Calculation Date, the price level of the Eligible Index or, in the case of an Eligible Basket, the price level of each Eligible Share in such

Eligible Basket, in each case, as published by the Price Source as of the close of business on such Calculation Date.

“Floating Amount” – means, on each Calculation Date, with respect to a Proprietary Swap Transaction an amount equal to:

FFFFFFFFFFFFFFFF NNFFFFFFFFFFFFFF AAAFAAFFFF xx (FFFFFFFFFFFFFF RRRFFRR 0000FFFFFFFF ± SSOSSRRFFSS) xx DDFDD CCFFAFFFF CFFFFCCRRFFFFFFFFFFFF

provided that, if the applicable administrator for such Floating Rate Option has not published the Floating Rate Option on such Calculation Date, then, in respect of any day for which the Floating Amount is required, references to the Floating Rate Option on such Calculation Date will be deemed to be references to the last provided or published Floating Rate Option (which shall be no more than 5 Swap Business Days prior to the applicable Calculation Date).

“Floating Leg” – means, with respect to a Proprietary Swap Transaction, the part of a Proprietary Swap Transaction where the payment is based on a Floating Rate Option.

“Floating Notional Amount” – means, with respect to each Proprietary Swap Transaction, initially, the Initial Notional Amount, and thereafter, updated to reflect the Equity Notional Amount on each Floating Notional Reset Date determined based on the Floating Notional Reset Frequency.

“Floating Notional Reset Date” – means each Swap Business Day on which the Floating Notional Amount for a Proprietary Swap Transaction is updated based on the Floating Notional Reset Frequency in accordance with Section D-806(2).

“Floating Notional Reset Frequency” – means, with respect to a Proprietary Swap Transaction, the timing for updating the Floating Notional Amount, which frequency shall either be daily during the Term or monthly during the Term, in each case as specified in the Economic Terms submitted for such Proprietary Swap Transaction.

“Floating Rate Option” – means, in respect of a Calculation Date and a Proprietary Swap Transaction, the daily or forward-looking term rate, as set out in the Economic Terms, based on the SOFR Rate, the EFR Rate, as applicable, or such other interest rate benchmark approved by the Corporation for such Proprietary Swap Transaction and published by the Corporation on the TRS Webpage, which rate shall be determined on each Floating Rate Reset Date during the Term of such Proprietary Swap Transaction, subject to, in the case of a daily rate calculated in arrears, a one Swap Business Day lookback or such applicable lookback period published by the Corporation on the TRS Webpage.

“Floating Rate Payer” or **“Equity Amount Receiver”** – means, in respect of a Swap Clearing Member, such Swap Clearing Member who is designated as the floating rate payer under a Proprietary Swap Transaction and who becomes the floating rate payer to the Corporation upon acceptance of the Proprietary Swap Transaction by the Corporation, and in respect of the Corporation, the Corporation when it has assumed the position of the floating rate payer under a Proprietary Swap Transaction pursuant to Section D-805(1). The term “Equity Amount Receiver” will be used when referring specifically to the Equity Leg of a Proprietary Swap Transaction, whereas the term “Floating Rate Payer” will be used when referring specifically to the Floating Leg of a Proprietary Swap Transaction.

“Floating Rate Reset Date” – means each Swap Business Day on which the Floating Rate Option for a Proprietary Swap Transaction is determined based on the Floating Rate Reset Frequency in accordance with Section D-806(3), with the initial Floating Rate Reset Date as the Trade Date.

“Floating Rate Reset Frequency” – means, with respect to a Proprietary Swap Transaction, the timing for determining the Floating Rate Option, which frequency shall either be fixed on the Trade Date (no reset), daily during the Term or monthly during the Term, in each case as specified in the Economic Terms submitted for such Proprietary Swap Transaction.

“FRN Convention” – means, with respect to any Proprietary Swap Transaction where the Economic Terms specify a Floating Notional Reset Frequency and/or Floating Rate Reset Frequency, as applicable, of ‘monthly’:

- (a) the first Floating Notional Reset Date or Floating Rate Reset Date, as applicable, shall be the day, numerically corresponding to the Trade Date, that falls in the calendar month immediately following the Trade Date;
- (b) each subsequent Floating Notional Reset Date or Floating Rate Reset Date, as applicable, shall be the day, numerically corresponding to the immediately preceding Floating Notional Reset Date or Floating Rate Reset Date, as applicable, that falls in the calendar month immediately following the one in which the preceding Floating Notional Reset Date or Floating Rate Reset Date, as applicable, occurred. However:
 - (i) if there is no such numerically corresponding day in the calendar month in which the relevant Floating Notional Reset Date or Floating Rate Reset Date, as applicable, should occur, then that Floating Notional Reset Date or Floating Rate Reset Date, as applicable, shall be the last Swap Business Day in that month;
 - (ii) if the relevant preceding Floating Notional Reset Date or Floating Rate Reset Date, as applicable, occurred on a Swap Business Day that was the last day in a calendar month, then all subsequent Floating Notional Reset Dates or Floating Rate Reset Date, as applicable, shall be the last Swap Business Day in the calendar month immediately following the one in which the preceding Floating Notional Reset Date or Floating Rate Reset Date, as applicable, occurred; and
- (c) the Modified Following Business Day Convention shall apply to each Floating Notional Reset Date or Floating Rate Reset Date, as applicable, that would otherwise fall on a day that is not a Swap Business Day.

“Index Adjustment Event” – means an Index Modification, an Index Cancellation or an Index Disruption.

“Index Cancellation” – means, in respect of a Proprietary Swap Transaction, the relevant Eligible Index Sponsor permanently cancels the Eligible Index and no Successor Index exists.

“Index Disruption” – means, in respect of a Proprietary Swap Transaction with an underlying which is an Eligible Index the failure of an Eligible Index Sponsor to calculate and announce the price level of an Eligible Index and, accordingly, the Price Source fails to publish a Final Price for such Eligible Index for 5 Exchange Business Days.

“Index Modification” – means, in respect of a Proprietary Swap Transaction with an underlying which is an Eligible Index, the relevant Eligible Index Sponsor announces that it will make a material change in the formula for or the method of calculating that Eligible Index or in any other way materially modifies that Eligible Index (other than a modification prescribed in that formula or method to maintain that Eligible Index in the event of changes in constituent share and capitalization and other routine events).

“Ineligible Shares” – means all shares that are not Eligible Shares.

“Initial Notional Amount” – means, with respect to a Proprietary Swap Transaction, the initial notional amount of the Equity Leg as of the Trade Date, which in the case of (i) an Eligible Index, shall be the initial notional amount as set out in the Economic Terms, and (ii) an Eligible Basket, an amount equal to the quantity of Eligible Shares set out in the Economic Terms multiplied by the Initial Price for such Eligible Share.

“Initial Price” – means, in respect of a Proprietary Swap Transaction, (i) for the first Calculation Date, the price level of the Eligible Index or, in the case of an Eligible Basket, the price level of each Eligible Share in such Eligible Basket, in each case, as published by the Price Source as of the close of business on the Trade Date as determined by the Corporation, and (ii) for each subsequent Calculation Date, the Final Price of such Eligible Index or Eligible Share, as applicable, as of the close of business on the immediately preceding Calculation Date.

“Insolvency” – means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceeding affecting an Issuer, (i) all the shares of that Issuer are required to be transferred to a trustee, liquidator or other similar official or (ii) holders of the shares of that Issuer become legally prohibited from transferring them.

“Issuer” – means, in respect of a Basket Share, the issuer of the relevant Basket Share.

“Issuer Bid” – means an offer to acquire or redeem Basket Shares of an Issuer made by the Issuer to shareholders (other than via a Transformation Event) in exchange of a valuable consideration offered or paid by such Issuer.

“Maturity Date” – means, with respect to any Proprietary Swap Transaction, the Swap Business Day that is one Swap Business Day prior to the Termination Date, and is also the last day of the Term of such Proprietary Swap Transaction, and the last Calculation Date for such Proprietary Swap Transaction.

“Merger” – means, (a) any (i) reclassification or change of such Basket Shares that results in a transfer of or an irrevocable commitment to transfer all of such Basket Shares outstanding to another entity or person, (ii) any consolidation, amalgamation, merger or binding share exchange or change in the capital structure of the Issuer with or into another entity or person where all the Basket Shares in the hands of the public are changed into another security, cash or other property (other than a consolidation, amalgamation, merger or binding share exchange in which such Issuer is the continuing entity and which does not result in a reclassification or change of all of Basket Shares of that Issuer which are outstanding), or (iii) a Takeover; and (b) the Basket Shares are delisted or privatized in exchange for New Shares which are Ineligible Shares or cash or other consideration.

“Modified Following Business Day Convention” – means the convention for adjusting a relevant date if it would otherwise fall on a day that is not a Swap Business Day to the first following day that is a Swap Business Day unless that day falls in the next calendar month, in which case the adjusted date will be the first preceding day that is a Swap Business Day.

“Nationalization” – means when all the Basket Shares of an Issuer or all or substantially all the assets of an Issuer are nationalized, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof.

“Net Equity Amount” – means, in respect of a Calculation Date with respect to each Proprietary Swap Transaction, the sum of all Equity Amounts (whether positive or negative) for such Proprietary Swap Transaction.

“New Shares” – means ordinary or common shares of any entity or person involved in a Transformation Event, or resulting from a Corporate Action with Options.

“Next Reset Date” – means, in respect of a Proprietary Swap Transaction, the next date on which the Floating Rate Option or Floating Notional Amount may be determined in accordance with the Floating Rate Reset Frequency or Floating Notional Reset Frequency, as applicable, or on which the Spread may be amended in accordance with the Operations Manual.

“Novation Date” – means the Swap Business Day on which a Proprietary Swap Transaction is accepted by the Corporation for clearance subject to conditions set forth herein.

“Partial Termination Amount” – has the meaning set out in Subsection D-811.4(2).

“Partial Unwind” – has the meaning set out in Subsection D-811.1(2).

“Partial Unwind Date” – has the meaning set out in Subsection D-811.4(1).

“Partial Unwind Notice” – has the meaning set out in Subsection D-811.1(2).

“Price Source” – means the price source for an Eligible Share and/or Eligible Index as published and linked on the TRS Webpage.

“Proprietary Swap Clearing” – means the provision of clearing services by the Corporation of Proprietary Swap Transactions in accordance with this Rule D-8.

“Proprietary Swap Transaction(s)” – means each cleared Transaction resulting from the novation of a Bilateral Swap Transaction pursuant to this Rule D-8 as more particularly described in Section D-805.

“Rate of Return” – means, in respect of a Proprietary Swap Transaction on each Calculation Date, a rate determined based on the following formula:

$$\left(\frac{\text{((FFFFFPPSSFFPPRR - IIFFFFFFFFPPSSPPRR))}}{\text{IIFFFFFFFFPPSSPPRR}} \right) \times \text{MMAAFFFFFPOFFFFRRSS} \text{ (ii FFFFD)} \quad \text{xx}$$

“Required Swap Margin” – means, in respect of a Calculation Date and a Swap Clearing Member, the aggregate Swap Margin required to be delivered by a Swap Clearing Member by the applicable Settlement Time on the related Settlement Date, in accordance with Rule A-7A, the Operations Manual and the Risk Manual, in respect of all Proprietary Swap Transactions entered into by such Swap Clearing Member and outstanding on such Calculation Date, together with any Required Swap Margin in respect of any prior Calculation Date not yet delivered by such Swap Clearing Member as of the applicable Settlement Time on the related Settlement Date.

“Rights Issue” – means when an Issuer issues or distributes any rights to its holders of Basket Shares to subscribe for or purchase additional Basket Shares of that Issuer.

“Settlement Date” – means, in respect of a Proprietary Swap Transaction and each Calculation Date, each Swap Business Day during the Term of such Proprietary Swap Transaction immediately following such Calculation Date.

“Share Buy-Back” – means an Issuer Bid or any other offer to the shareholders of an Issuer to purchase Basket Shares for cancellation by the Issuer.

“Share Consolidation” – means a decrease in the number of Basket Shares of an Issuer by a reduction, combination, consolidation or change in the then outstanding Basket Shares of an Issuer by a specific multiple.

“Share Distribution” – has the meaning set out in Subsection D-807.2(1).

“Share Split” – means an increase in the number of Basket Shares of an Issuer by a subdivision or change in the then outstanding Basket Shares of an Issuer by a specific multiple.

“Share-for-Combined” – means, in respect of a Merger, that the consideration for the Affected Shares consists of New Shares and cash, securities other than New Shares or assets.

“Share-for-Other” – means, in respect of a Merger, that the consideration for the Affected Shares consists of cash, securities other than New Shares or assets.

“Share-for-Share” – means, in respect of a Merger or a Corporate Action with Options, that the consideration for the Affected Shares consists or will consist solely of New Shares.

“SOFR Rate” – means the secured overnight financing rate (SOFR) as determined by the appointed SOFR benchmark administrator.

“Spin-off” – means when an Issuer offers holders of its shares the option of buying shares of one of its business units or divisions.

“Spread” – means, in respect of a Proprietary Swap Transaction, the per annum rate (which may be negative), if any, expressed as a decimal as set out in the Economic Terms.

“Successor Index” – has the meaning set out in Section D-814(1).

“Suspension” – means, in respect of a Basket Share, the suspension of trading activities related to such Basket Share by the relevant Exchange on which the Basket Share is listed and traded for any reason (other than a Transportation Event) pursuant to the rules of such Exchange.

“Swap Amendment” – has the meaning set out in Section D-806(4).

“Swap Business Day” – means each Exchange Business Day that is also a Currency Business Day.

“Swap Clearing Member” – means an applicant which meets the criteria set out in Section A – 1A01(b) and is approved by the Corporation for Proprietary Swap Clearing.

“Swap Net Settlement Amount” – means, with respect to a Swap Clearing Member, the amount calculated in accordance with Section D-816(3).

“Takeover” – means a Tender Offer that results in the purchase of 100% of the outstanding voting and/or participating shares of an Issuer.

“Tender Offer” – means a takeover offer, tender offer, share exchange offer, solicitation, proposal or other event by any entity or person that would result in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10% and less than 100% of the outstanding voting and/or participating shares of the Issuer.

“Term” – means the period from and including the Novation Date to and including the Maturity Date or such earlier date as may be designated by the Swap Clearing Members party to each leg of such Proprietary Swap Transaction pursuant to a Swap Amendment or as a result of such Proprietary Swap Transaction being unwound early, in full, as a result of a Corporate Action.

“Termination Date” – means, with respect to any Proprietary Swap Transaction, the date that is the final Settlement Date of such Proprietary Swap Transaction and initially is the date identified as such in the Economic Terms submitted by the applicable Swap Clearing Members for such Proprietary Swap Transaction, and is subject to adjustment pursuant to a Swap Amendment or as a result of such Proprietary Swap Transaction being unwound early, in full, as a result of a Corporate Action.

“Trade Confirmation” – means, with respect to any Proprietary Swap Transaction, a summary of the matched Economic Terms of such Proprietary Swap Transaction made available to the Swap Clearing Members party to each leg of the Proprietary Swap Transaction on the TRS Portal and which each such Swap Clearing Member is deemed to have received upon such publication on the TRS Portal.

“Trade Date” – means, with respect to any Proprietary Swap Transaction, the trade date of the Bilateral Swap Transaction as set out in the Economic Terms.

“Transformation Event” – means a Merger or a De-merger.

“TRS Portal” – means the online submission and confirmation platform for Proprietary Swap Transactions maintained by the Corporation and made available to Swap Clearing Members.

“TRS Webpage” – means the informational webpage for Proprietary Swap Transactions maintained by the Corporation and made available to Swap Clearing Members.

Any capitalized term used in this Rule D-8 that is not defined in this Section D-801 shall have the meaning assigned to it in Section A-102.

Section D-802 - Paramountcy

In the event of any inconsistency between the provisions of this Rule D-8 and the other provisions of the Rules, the provisions of this Rule D-8 will prevail.

Section D-803 - Essential Terms of Proprietary Swap 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 Proprietary Swap Transaction shall be required to be submitted to the Corporation by or on behalf of both of the Swap Clearing Members submitting a Bilateral Swap Transaction:

Floating Rate Payer

Equity Amount Payer

Trade Date

Termination Date

Multiplier [*optional input; default to 1*]

Settlement Currency

Equity ID/Index ID

Quantity [*input only applicable to an Eligible Basket*]

Initial Notional Amount [*input only applicable to an Eligible Index*]

Floating Rate Option

Floating Rate Option Tenor

Spread

Floating Rate Reset Frequency

Floating Notional Reset Frequency

Early Termination Option

- (2) For purposes of the *Interest Act* (Canada), if any rate of interest payable under any Proprietary Swap 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-804 - Trade Reception and Validation

- (1) Any Bilateral Swap Transaction submitted for Proprietary Swap Clearing shall be submitted to the Corporation by or on behalf of both Swap Clearing Members through the TRS Portal or through an Acceptable Intermediary (whether bilateral or multilateral). The Corporation may require evidence as it deems reasonably acceptable that a Swap Clearing Member is a duly authorized participant of any multilateral Acceptable Intermediary. 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 Intermediary.
- (2) Once a Bilateral Swap Transaction has been submitted to the Corporation, a variety of validations will occur in accordance with the Corporation's Proprietary Swap Clearing procedures. These validations are designed to ensure that (i) all Economic Terms of the Bilateral Swap Transaction submitted to the Corporation by the Swap Clearing Members match, (ii) all Acceptance Criteria set forth in Section D-104 are satisfied, and (iii) the Corporation does not accept any Bilateral Swap Transaction bearing attributes that are determined by the Corporation, in its discretion, as not acceptable for clearing, including without limitation, Eligible Basket, Eligible Index, and Eligible Share criteria.
- (3) The Corporation shall reject a Bilateral Swap Transaction for Proprietary Swap Clearing if (i) the Economic Terms listed in Section D-803 are determined by the Corporation, in its sole discretion, to be incorrect or incomplete when the Bilateral Swap Transaction is submitted to the Corporation by or on behalf of the Swap Clearing Members, (ii) the Economic Terms of the Bilateral Swap Transaction submitted by or on behalf of the two Swap Clearing Members do not match, (iii) any other Acceptance Criteria set forth in Section D-104 is not met or (iv) the Bilateral Swap

Transaction bears attributes that are determined by the Corporation, in its discretion, as not acceptable for clearing, including without limitation, Eligible Basket, Eligible Index, and Eligible Share criteria. Notwithstanding the foregoing, the Corporation may, in its sole discretion and for any reason, refuse to clear any Bilateral Swap Transaction submitted to it for Proprietary Swap Clearing.

- (4) If the Acceptable Intermediary used for submitting a Bilateral Swap Transaction to the Corporation for Proprietary Swap Clearing is a multilateral facility, each Swap Clearing Member transacting as Equity Amount Payer or Floating Rate Payer shall be responsible for timely affirming such Bilateral Swap Transaction on the TRS Portal, as directed by the Corporation.
- (5) A Bilateral Swap Transaction may be submitted for clearing pursuant to this Section D-804 and shall be cleared pursuant to Section D-805 regardless of whether such Bilateral Swap Transaction was agreed to bilaterally or on or subject to the rules of an unaffiliated electronic matching platform or trade execution facility.

Section D-805 – Novation

- (1) Once all validations have occurred with respect to a Bilateral Swap Transaction submitted for Proprietary Swap Clearing in accordance with Section D-804, the Bilateral Swap Transaction shall be automatically novated to the Corporation such that the Bilateral Swap Transaction is replaced by two equivalent Proprietary Swap Transactions, one between the Equity Amount Payer and the Corporation where the Corporation is substituted as the Floating Rate Payer, and one between the Floating Rate Payer and the Corporation where the Corporation is substituted as the Equity Amount Payer.
- (2) As a result of the novation process set forth in Section D-805(1), the Corporation shall (i) assume the position of the Equity Amount Payer and become an equity amount payer to the Floating Rate Payer and shall assume the position of the Floating Rate Payer and become a floating rate payer to the Equity Amount Payer under all Proprietary Swap Transactions in each case, as principal to such Proprietary Swap Transactions and (ii) issue a Trade Confirmation with respect to each individual Proprietary Swap Transaction which shall be deemed to be received by the transacting Swap Clearing Members once posted on the TRS Portal. A Swap Clearing Member shall be bound by the terms of a Proprietary Swap Transaction for which the Corporation has issued a Trade Confirmation in its name.
- (3) Proprietary Swap Clearing by the Corporation is subject to, and contingent upon, the occurrence of the novation described in Section D-805(1) above. As of the Novation Date, Swap Clearing Members that submitted a Bilateral Swap Transaction accepted for Proprietary Swap Clearing shall become subject to the terms of the resulting Proprietary Swap Transactions, which Proprietary Swap Transactions shall be governed by these Rules. If the Bilateral Swap Transaction is not accepted for clearing by, and is not novated to, the Corporation by close of business on the Trade Date, such Bilateral Swap Transaction shall be *void ab initio* and the Swap Clearing Members and the Corporation shall have no further obligation or liability with respect to such Bilateral Swap Transaction.
- (4) If the Bilateral Swap Transaction is revoked, voided or otherwise declared invalid for any reason after the Economic Terms of such Bilateral Swap Transaction has been accepted by the Corporation for Proprietary Swap Clearing, that revocation, avoidance or invalidity shall not affect any Proprietary Swap Transaction arising out of this Section D-805.

Section D-806 – Resets and Permitted Amendments to a Proprietary Swap Transaction during Term

- (1) The Equity Notional Amount for each Proprietary Swap Transaction shall automatically be updated by the Corporation on each Calculation Date during the Term of such Proprietary Swap Transaction to reflect the applicable Net Equity Amount.
- (2) The Floating Notional Amount for each Proprietary Swap Transaction shall automatically be updated by the Corporation following the close of the regular trading session on the relevant Exchange on each Floating Notional Reset Date during the Term of such Proprietary Swap Transaction in order to reflect the applicable Equity Notional Amount as of such Floating Notional Reset Date. If the Economic Terms provide a Floating Notional Reset Frequency of ‘monthly’, such Floating Notional Reset Date shall be determined in accordance with the FRN Convention.
- (3) The Floating Rate Option for each Proprietary Swap Transaction shall be determined by the Corporation on each Floating Rate Reset Date during the Term of such Proprietary Swap Transaction. If the Economic Terms provide a Floating Rate Reset Frequency of ‘monthly’, such Floating Rate Reset Date shall be determined in accordance with the FRN Convention.
- (4) If the Swap Clearing Members party to each leg of the relevant Proprietary Swap Transactions with the Corporation agree to amend the Economic Terms of such Proprietary Swap Transactions to: (a) increase the Equity Notional Amount of such Proprietary Swap Transactions as a result of an increase to the quantity of the Applicable Underlying or to add new Applicable Underlying(s) under such Proprietary Swap Transactions, (b) change the Floating Rate Option applicable to the Floating Leg of such Proprietary Swap Transaction, (c) change the Spread applicable to the Floating Rate Option of such Proprietary Swap Transactions, (d) change the Next Reset Date of such Proprietary Swap Transactions, or (e) change the Maturity Date of such Proprietary Swap Transactions, whether pursuant to an Early Termination Option or otherwise (each, a “**Swap Amendment**”), then both such Swap Clearing Members shall submit such Swap Amendment(s) to the Corporation for clearing in accordance with Sections D-803 and D-804, as applicable, as if such Swap Amendment were a Bilateral Swap Transaction. Subject to acceptance by the Corporation of such Swap Amendment(s) for clearing in accordance with Section D-805 as if such Swap Amendment were a Bilateral Swap Transaction, once all validations have occurred with respect to such Swap Amendment, such Swap Amendment shall become effective following the close of the regular trading session on the relevant Exchange on the Swap Business Day such Swap Amendment is submitted and accepted for clearing (such date, the “**Amendment Effective Date**”). If the Swap Amendment is accepted for clearing by the Corporation, the Corporation shall issue an amended Trade Confirmation reflecting the Swap Amendment and, in the case of a Swap Amendment to increase the Equity Notional Amount, the Floating Notional Amount shall automatically be updated by the Corporation as of the close of business on the Amendment Effective Date in order to reflect the revised Equity Notional Amount, and this Rule D-8 shall apply to such Proprietary Swap Transaction, as amended by the Swap Amendment, from and after the Amendment Effective Date, mutatis mutandis. If the Swap Amendment is not accepted for clearing by, and is not novated to, the Corporation, such Swap Amendment shall be *void ab initio* as between the applicable Swap Clearing Members, and such Swap Clearing Members and the Corporation shall have no obligation or liability with respect to any such Swap Amendment.

Section D-807 – Dividends

Subsection D-807.1 – Cash Distributions

- (1) In respect of each Proprietary Swap Transaction, the Equity Amount Receiver will be entitled to receive a Dividend Amount if any cash dividend or distribution, whether ordinary or extraordinary (a “**Cash Distribution**”) is declared by the Issuer to holders of record of a Basket Share where the relevant Ex-Dividend Date occurs during the Dividend Period for such Proprietary Swap Transaction and the record date for the Cash Distribution occurs during the Dividend Period. The Dividend Amount will be held by the Corporation as Swap Margin as of the Ex-Dividend Date until the date the relevant Cash Distribution is paid by the Issuer to holders of record of such Basket Share (the “**Dividend Payment Date**”). On the earlier of (i) each Dividend Payment Date relating to such Proprietary Swap Transaction and (ii) the Termination Date of such Proprietary Swap Transaction, the Corporation will pay the Dividend Amount to the Equity Amount Receiver, subject to the Following Swap Business Day Convention and subject to the netting provisions set out under Section D-816.
- (2) If a Dividend Amount of a Basket Share is adjusted by the relevant Issuer and the record date for the Cash Distribution occurs during the Dividend Period, the Corporation will make corresponding adjustments to the relevant Dividend Amount and any payment owing to the Equity Amount Receiver by the Corporation, or by the Equity Amount Receiver to the Corporation, as applicable, will be made on the applicable Swap Business Day following the date such adjustment is made by the Issuer, subject to the netting provisions set out under Section D-816.

Subsection D-807.2 – Share Distributions

- (1) If share dividends or stock distributions (a “**Share Distribution**”) are paid in respect of a Basket Share and the record date for the Share Distribution occurs during the Dividend Period, the Share Distribution will be calculated by multiplying the share distribution ratio per Basket Share by the number of Basket Shares in an Eligible Basket underlying a Proprietary Swap Transaction and will be added to the Eligible Basket.
- (2) As of the effective date of such Share Distribution, with respect to an applicable Proprietary Swap Transaction, the Corporation will make corresponding adjustment(s), if any, to any one or more of the Initial Price, the Final Price, the Equity Notional Amount, the Floating Notional Amount, and the relevant number of Basket Shares to reflect such Share Distribution.

Section D-808 – Share Split or Share Consolidation

If a Share Split or Share Consolidation occurs in respect of a Basket Share and the record date for the Share Distribution occurs during the Dividend Period, as of the effective date of such Share Split or Share Consolidation, with respect to an applicable Proprietary Swap Transaction, the Corporation will make corresponding adjustment(s), if any, to any one or more of the Initial Price, the Final Price, the Equity Notional Amount, the Floating Notional Amount and the relevant number of Basket Shares in the Eligible Basket to reflect the impact of such Share Split or Share Consolidation.

Section D-809 – Rights Issues

Securities issued pursuant to a Rights Issue by an Issuer will not form part of an Eligible Basket underlying a Proprietary Swap Transaction. Upon the announcement of a Rights Issue by an Issuer if the record date for the Rights Issue occurs during the Dividend Period, the Corporation will proceed as described in Subsection D-811.4(1) after having given a Partial Unwind Notice to the Affected Clearing Swap Members

within one Swap Business Day of such announcement. For late announcements, the Corporation will not recognize any retroactive adjustment.

Section D-810 – Other Events

In the case of any other event affecting or giving rise to a right or entitlement attaching to a Basket Share, the Corporation, acting through a team or a committee (as applicable, the “**Corporate Action Committee**”), consistent with the Corporate Action Policy, will determine, as soon as possible, what impact such event will have on the Proprietary Swap Transaction and inform Affected Swap Clearing Members by notice. Determinations regarding corporate actions pursuant to Sections D-807 through D-815 of these Rules shall be consistent with the Corporate Action Policy and subject to the determination of the Corporate Action Committee.

Section D-811 – Transformation Event

Subsection D-811.1 – Merger

- (1) If an Issuer is subject to a Merger for which the consideration is Share-for-Share and the New Shares are Eligible Shares if the record date for the Rights Issue occurs during the Dividend Period, the Affected Shares will be replaced with the New Shares in the Eligible Basket, according to the ratio provided in the terms of the Merger, and subject to Subsection D-811.4(3) and Subsection D-811.5.
- (2) If an Issuer is subject to a Merger for which the consideration is Share-for-Combined and the New Shares are Eligible Shares if the record date for the Rights Issue occurs during the Dividend Period, the Affected Shares will be replaced with the New Shares in the Eligible Basket, according to the ratio provided in the terms of the Merger. For the balance of the consideration comprised of cash, securities or assets, the Corporation will give notice (a “**Partial Unwind Notice**”) to the Affected Swap Clearing Members that the Proprietary Swap Transaction will be partially unwound (a “**Partial Unwind**”).
- (3) If an Issuer is subject to a Merger for which the consideration is Share-for-Other, or Share-for-Share or Share-for-Combined and any New Shares or other securities are Ineligible Shares, the Corporation will give a Partial Unwind Notice to the Affected Swap Clearing Members.

Subsection D-811.2 – De-merger

If an Issuer is subject to a De-merger, the record date for the De-Merger occurs during the Dividend Period and the arrangement results in the issuance of New Shares which:

- (a) are Eligible Shares, the New Shares will be added to the Eligible Basket, subject to Subsection D-811.5;
- (b) are Ineligible Shares, the Corporation will give a Partial Unwind Notice to the Affected Swap Clearing Members as soon as practicable; or
- (c) are Eligible Shares but any Affected Share becomes an Ineligible Share, the Corporation will give a Partial Unwind Notice to the Affected Swap Clearing Members as soon as practicable with respect to such Affected Shares;

the whole subject to Subsection D-811.5.

Subsection D-811.3 - Partial Unwind Notice Timing

- (1) Upon the announcement and the public dissemination by the Issuer of the details of the Transformation Event which requires, consistent with the Corporate Action Policy and subject to the determination of the Corporate Action Committee, that the New Shares will result in Ineligible Shares, the Corporation will give a Partial Unwind Notice to the Affected Swap Clearing Members as soon as practicable and will proceed as described in Subsection D-811.4.

Subsection D-811.4 – Partial Unwind following a Transformation Event

- (1) In the case of a Partial Unwind of a Proprietary Swap Transaction, as of the effective date of such unwind (which date shall be at least two Swap Business Days following the date of the Partial Unwind Notice or such longer period of time as the Corporation shall reasonably determine) (the “**Partial Unwind Date**”), the Corporation will make, consistent with the Corporate Action Policy and subject to the determination of the Corporate Action Committee, corresponding adjustment(s), if any, to any one or more of the Initial Price, the Final Price, the Equity Notional Amount, the Floating Notional Amount, the Eligible Basket and the relevant number of Basket Shares with respect to the removal of the Affected Shares from the applicable Eligible Basket underlying a Proprietary Swap Transaction. The Eligible Basket will remain in place until the Maturity Date without the Affected Shares.
- (2) In connection with a Partial Unwind of a Proprietary Swap Transaction relating to the removal of Affected Shares, the Corporation will calculate the Equity Amount and the Floating Amount of the terminated portion of both the Equity Leg and the Floating Leg, respectively, (in each case, the “**Partial Termination Amount**”) of the applicable Eligible Basket underlying a Proprietary Swap Transaction as of the Partial Unwind Date, using the closing price of the relevant Exchange of the Affected Shares as of such Partial Unwind Date, and the relevant Affected Swap Clearing Member or the Corporation under each leg of the Proprietary Swap Transaction will pay the Partial Termination Amount on such Partial Unwind Date as published by the Price Source, subject to the netting provisions set out under Section D-816. For the avoidance of doubt, the decrease of the Equity Notional Amount represented by the removal of the Affected Shares will not form part of the Partial Termination Amount.
- (3) If the Corporation is unable to remove the Affected Shares from the Eligible Basket prior to the effective date of a Transformation Event, the Corporation will:
 - (a) in the case of a Merger, use the cash consideration, if any, provided as part of the terms of the Merger to calculate the Partial Termination Amount and remove the Affected Shares from the Eligible Basket. If a Merger resulting in a Share-to-Share transformation of the Basket Shares into Ineligible Shares was not announced prior to its completion, the Corporation will use the published conversion ratio and the closing price on the relevant Exchange of the resulting corporation as published by the Price Source to calculate the Partial Termination Amount; or
 - (b) in the case of a De-merger, use (i) the Affected Shares’ closing price on the relevant Exchange on the day prior to the effective date of the De-merger as published by

the Price Source, minus the sum, on such effective date, of the closing price on the relevant Exchange of the Affected Shares as published by the Price Source, plus the closing price of the Spin-off company's shares on its first day of trading on the relevant Exchange as published by the Price Source, and (ii) the terms of the Demerger, in each case, to determine the Partial Termination Amount.

Subsection D-811.5 – General Provisions for Transformation Events

The Corporation will make the adjustments to the Initial Price, the Final Price, the Equity Notional Amount, the Floating Notional Amount and the Eligible Basket, as applicable, underlying a Proprietary Swap Transaction provided in Subsection D-811.1 and Subsection D-811.2 on the effective date of the applicable Transformation Event.

Subsection D-811.6 – Excluded Events

In the event of Tender Offers and Share Buy-Backs in respect of Basket Shares, the Corporation will not treat those as Transformation Events and the relevant Eligible Basket will remain unchanged, unless the Tender Offer results in a Takeover, in which case the Corporation will then proceed as described in Subsection D-811.1.

Section D-812 – Suspension

- (1) If the Corporation is unable to remove the Affected Shares from the Eligible Basket prior to the formal Suspension of the applicable Issuer, the Corporation may require discretionary Swap Margin in anticipation of the attribution of a zero value to the suspended Affected Shares. If the Proprietary Swap Transaction matures, the Corporation will indefinitely extend the Term of the Proprietary Swap Transaction on the Affected Shares only. If the Affected Swap Clearing Members oppose the indefinite extension of the Term of the Proprietary Swap Transaction, both Affected Swap Clearing Members may agree to an early termination of the Proprietary Swap Transaction.

Section D-813 – Insolvency, Delisting and Nationalization

If an Issuer becomes subject to Insolvency, Nationalization, or a Basket Share is subject to Delisting, the Corporation will give a Partial Unwind Notice, on the Announcement Date, to the Affected Swap Clearing Members. The Affected Shares will then be removed from the Eligible Basket underlying the Proprietary Swap Transaction and the Corporation will make corresponding adjustment(s), if any, to any one or more of the Initial Price, the Final Price, the Equity Notional Amount, the Floating Notional Amount, the Eligible Basket and the and the relevant number of Basket Shares in the Eligible Basket with respect to such removal of the Affected Shares effective as of the Announcement Date

Section D-814 – Material Changes in Eligible Indices.

- (1) If the price level of an Eligible Index is (i) not calculated and announced by the Eligible Index Sponsor and published by the Price Source but is calculated and announced by a successor Eligible Index Sponsor and published by the Price Source within 5 Exchange Business Days of the applicable Calculation Date, or (ii) replaced by a successor index using, in the determination of the Corporation, the same or a substantially similar formula for and method of calculation as used in the calculation of that Eligible Index, then in each case that index (the “**Successor Index**”) will be deemed to be the Eligible Index.

- (2) If an Index Adjustment Event occurs, the Corporation will give notice on the Announcement Date (the “**Early Unwind Date**”), to the Affected Swap Clearing Members that the relevant Proprietary Swap Transaction will be unwound. The Corporation will calculate the Equity Amount and the Floating Amount of the relevant Proprietary Swap Transaction to be unwound as if such Early Unwind Date were the final Calculation Date and the relevant Swap Clearing Member or the Corporation, as applicable, under each leg of the Proprietary Swap Transaction will pay the Net Equity Amount and the Floating Amount on the Swap Business Day following such Early Unwind Date, subject to the netting provisions set out under Section D-816.

Section D-815 Mandatory Corporate Actions with Options

- (1) In the case of Corporate Actions with Options which consists of a Share-for-Share transformation as the default market option of the Issuer’s jurisdiction and which results in New Shares which are Eligible Shares, the Affected Shares will be replaced with the resulting Eligible Shares in the Eligible Basket of the Proprietary Swap Transaction. The Eligible Basket will reflect such New Shares as of the effective date of the Corporate Action with Options and the Corporation will make corresponding adjustment(s), if any, to any one or more of the Initial Price, the Final Price, the Equity Notional Amount, the Floating Notional Amount, the Eligible Basket and the relevant number of Basket Shares in the applicable Eligible Basket underlying a Proprietary Swap Transaction.
- (2) In the case the Share-for-Share transformation results in Ineligible Shares, the cash consideration option shall be deemed to have been elected, subject to any currency convention where applicable. The amount of the cash consideration option (the “**Cash Consideration Amount**”) will be deemed to be Swap Margin delivered by the Equity Amount Receiver and held by the Corporation. On the effective date of such Share-for-Share transformation, the Corporation will give a Partial Unwind Notice to the Affected Swap Clearing Members. The Affected Shares will then be removed from the Eligible Basket underlying the Proprietary Swap Transaction and the Corporation will make corresponding adjustment(s), if any, to any one or more of the Initial Price, the Final Price, the Equity Notional Amount, the Floating Notional Amount, the Eligible Basket and the relevant number of Basket Shares in the Eligible Basket with respect to such removal of the Affected Shares effective as of the effective date of such Share-for-Share transformation.
- (3) In the case of any other Corporate Actions with Options, the Corporation will always elect the default market option of the Issuer’s jurisdiction and reflect the applicable changes in the applicable Eligible Basket of the Proprietary Swap Transaction. Such Eligible Basket will reflect such changes as of the effective date of such Corporate Action with Options and the Corporation will make corresponding adjustment(s), if any, to any one or more of the Initial Price, the Final Price, the Equity Notional Amount, the Floating Notional Amount, the Eligible Basket and the relevant number of Basket Shares in the applicable Eligible Basket underlying a Proprietary Swap Transaction.

Section D-816 – Transfers and Payments

- (1) In respect of the Equity Leg of each Proprietary Swap Transaction, the Corporation shall calculate on each Calculation Date during the Term (with the first such Calculation Date to be the Swap Business Day following the Trade Date), the Net Equity Amount as of such Calculation Date by aggregating the Equity Amounts (whether positive or negative) as of such Calculation Date with respect to the Applicable Underlying for such Proprietary Swap Transaction. Such Net Equity Amount will be payable to or from the applicable Swap Clearing Member, as applicable, on the

related Settlement Date up to and including the Termination Date, subject to the netting provisions under Section D-816(3).

- (2) In respect of the Floating Leg of each Proprietary Swap Transaction, the Corporation shall calculate on each Calculation Date during the Term (with the first such Calculation Date to be the Exchange Business Day following the Trade Date), the Floating Amount as of such Calculation Date owing by the Floating Rate Payer under such Proprietary Swap Transaction. Such Floating Amount will be payable to or from the applicable Swap Clearing Member, as applicable, on the related Settlement Date up to and including the Termination Date, subject to the netting provisions under Section D-816(3).
- (3) On each Calculation Date, the Corporation will calculate the Swap Net Settlement Amount for each Swap Clearing Member in accordance with this Section D-816(3). The Swap Net Settlement Amount will be determined by netting the Daily Equity Payment Obligation for such Swap Clearing Member, the Daily Floating Payment Obligation for such Swap Clearing Member, the Dividend Amount owed by or to such Swap Clearing Member and any adjustment to the Dividend Amount owed by or to such Swap Clearing Member and the Partial Termination Amount owed by or to such Swap Clearing Member, in each case, on such Calculation Date. On the Settlement Date related to such Calculation Date, and in accordance with the procedures and times set out in the Operations Manual and the Default Manual, the Swap Clearing Member or the Corporation, as applicable, will pay such Swap Net Settlement Amount on or prior to the applicable Settlement Time. The Swap Net Settlement Amount shall not be netted against any Required Swap Margin.
- (4) On each Settlement Date, the Corporation will notify the Swap Clearing Member of the Swap Net Settlement Amount calculations in accordance with the procedures set out in the Operations Manual. If, on any Settlement Date, the Swap Clearing Member has not received such notice from the Corporation, it shall be the responsibility of that Swap Clearing Member to ascertain from the Corporation the Swap Net Settlement Amount owed by the Swap Clearing Member on such Settlement Date so that payment of such amount may be made to a Designated Financial Institution before the applicable Settlement Time on such Settlement Date.
- (5) Each Swap Clearing Member is responsible for delivering sufficient funds to a Designated Financial Institution to satisfy its Swap Net Settlement Amount obligations as they become due.
- (6) If the Corporation does not have sufficient liquidity to pay all the Swap Net Settlement Amount it owes to Swap Clearing Members on a given Settlement Date, the Corporation shall fail to pay *pro rata* among such Swap Clearing Members and that event shall constitute a Payment Default trigger under Paragraph A-409(5)(a) in respect of the Affected Swap Clearing Members.

Section D-817 - Final and Irrevocable Payment

When the settlement of a payment obligation of a Swap Clearing Member or the Corporation is made through an entry to or a payment out of an account as provided in Section D-816(3), such settlement of the payment obligation of a Clearing Member or the Corporation shall be final and irrevocable.

OPERATIONS MANUAL

BLACKLINE VERSION

**CANADIAN DERIVATIVES CLEARING CORPORATION
CORPORATION CANADIENNE DE COMPENSATION DE PRODUITS
DÉRIVÉS**

OPERATIONS MANUAL

[...], 2026

SECTION 1 PREAMBLE AND DEFINITIONS

PREAMBLE

This Amended and Restated Operations Manual cancels and supersedes the previous versions thereof.

CDCC and its Clearing Members are contractually bound by the Membership Agreement which is constituted by the Application for Membership when accepted by CDCC, as may be amended from time to time, which incorporates by reference the Rules of CDCC, as may be amended from time to time. The Rules of CDCC include this Operations Manual, as may be amended from time to time. In the case of conflict, the provisions of the Rules (excluding the Operations Manual) prevail over this Operations Manual. The provisions of the Rules (including this Operations Manual), in the case of conflict, prevail over the provisions of the Application for Membership.

The Operations Manual provides practical details with respect to (i) certain definitions, (ii) timelines, (iii) reports, (iv) trade processing, (v) open positions, (vi) exercises, tenders, assignments and delivery, (vii) settlement, (viii) additional margin processing, and (ix) clearing fees. The Operations Manual contains two schedules which are integral parts thereof: (a) the Risk Manual providing practical details with respect to margin and other risk management processes, including the Default Manual as an Appendix, and (b) the templates of depository agreements.

All times specified in this Operations Manual refer to Eastern Time, unless otherwise indicated.

All amounts specified in this Operations Manual refer to Canadian currency, unless otherwise indicated.

All capitalized terms used in this Operations Manual shall have the meanings assigned to them in the Rules unless the context otherwise requires or unless specifically defined differently herein.

DEFINITIONS

Unless otherwise defined in this Operations Manual, capitalized terms shall have the meanings given to them in the Rules.

“Assets” - Securities pledged to and cash deposited by the Clearing Member with CDCC.

“Automatic Exercise” - a process by which CDCS will exercise In-the-Money Options at a pre-determined threshold.

~~**“Assets” - Securities pledged and cash deposited by the Clearing Member to the CDCC.**~~

“CAD” - Canadian Dollars.

“CDCC Clearing Application” - CDCS and all the processes associated with it, as may be supplemented or otherwise changed from time to time.

“CDCS” - means the Canadian Derivatives Clearing Service or any successor performing a function substantially equivalent to the function performed by it.

“CFTC Requirement Validation” - the process by which CDCC determines that the basket of securities underlying a Bilateral Swap Transaction or Swap Amendment satisfies the definition of TRS Eligible Basket.

“Closing Transaction” - any Transaction that is either a Closing Buy Transaction, a Closing Purchase Transaction, a Closing Sell Transaction or a Closing Writing Transaction, as such terms are defined in the Rules, and in all cases that reduces or eliminates the Clearing Member’s Open Interest.



“Converge” - marketing brand of the portion of the CDCC Clearing Application that captures and processes OTCI Transactions, including Fixed Income Transactions.

“Eligible Collateral” - collateral which may be deposited with the Corporation for the purpose of fulfilling Margin requirements and which meets certain criteria described in the Risk Manual.

“Exerciser” - a Clearing Member that holds a Long Position in a particular Series of Options and submits an Exercise Notice to CDCC.

“Expiry Friday” - the third Friday of the month, unless that Friday is not a Business Day, then the Business Day preceding the third Friday of the month.

“FIFO Period” - the quarterly delivery period for Futures contracts on Government of Canada bonds (with the exception of the LGB), in accordance with Contract Specifications of the relevant Exchange.

“Forward Repurchase Transaction” - a Repurchase Transaction in respect of which the Open Leg has not settled yet at the time of the relevant report.

~~**“SFTP Downloads”** - Clearing Member’s access to files and reports on an SFTP server that is part of the CDCC Clearing Application.~~

“Inquiry Screen” - Graphical User Interface (GUI) view of the CDCC Clearing Application.

“Large Value Transfer System” or **“LVTS”** - an electronic wire system introduced by the Canadian Payments Association in February 1999 to facilitate the transfer of irrevocable payments in Canadian dollars across the country.

~~**“Limited Clearing Member (LCM)”** - has the meaning given thereto in Section A-102 of the Rules.~~

“Margin Fund Accounts” - the CDCS record provided to each Clearing Member containing all Margin deposited by such Clearing Member to CDCC, in respect to the Firm Margin Accounts, GCM Regime Margin Accounts and Non-GCM Regime Margin Accounts for any of the following: (1) Base Initial Margin (or Adjusted Base Initial Margin, as the case may be), (2) Additional Margin for Market Liquidity Risk, (3) Additional Margin for Specific Wrong-Way Risk, (4) Additional Margin for Mismatched Settlement Risk, (5) Additional Margin for Intra-Day Variation Margin Risk, (6) Additional Margin for Unpaid Option Premium Exposure Risk, (7) Additional Margin for Banking Holiday Risk, (8) Additional Margin for Variation Margin Delivery Risk, (9) Additional ~~Margin for Capital~~ ~~Margin~~ Risk, (10) Additional Margin for Uncovered Risk of Limited Clearing Members, (11) ~~Additional Margin for Intra-Day GCM Risk~~, (12) ~~Additional Margin for Undeclared GCM Positions Risk~~, (13) ~~Additional Margin for Dividend Payment Risk~~, (14) ~~Additional Margin for Stress Test Risk~~, (15) Variation Margin for Options, and (1216) Variation Margin for Unsettled Item; the whole in accordance with the Risk Manual, or otherwise as set forth in Section 8 ~~hereof~~ ~~hereof~~. For greater certainty, reference herein to Margin Fund Accounts include references to TRS Margin Fund Accounts.

“Mini Contract” - a Future or an Option that has the same Underlying Interest as a Standard Contract but having a Unit of Trading that is a ratio of the Standard Contract in accordance with applicable Contract Specifications.

“Net Settlement Position” - all the future Net Delivery Requirements and Net Payment Against Delivery Requirements of a Clearing Member, as reported by CDCC on a daily basis, taking into account all Fixed Income Transactions that have settled during the day and all new Fixed Income Transactions that have been novated to CDCC.



“Net Variation Margin Requirement” - has the meaning given thereto in Section D-601 of the Rules. Reference will be made to (Fixed Income) Net Variation Margin Requirement in this Manual.

“Open Position File” - database of the CDCC Clearing Application which compiles the Open Positions of all Clearing Members. Each Clearing Member can access the information pertaining to his accounts only, not to other Clearing Members’ accounts.

“Opening Transaction” - any Transaction that is either an Opening Buy Transaction, an Opening Purchase Transaction, an Opening Sell Transaction or an Opening Writing Transaction as set forth in Section A-102 of the Rules.

“Operational Notices” - formal notifications to the Clearing Members, representing items that are not published on CDCC’s website. These documents are available on the Secured Website.

“OTCI Equity Options” - over the counter options on an equity, bearing characteristics that differ from Exchange traded Options and are cleared by CDCC through Converge.

“Overnight Clearing Cycle” - clearing cycle starting at 8:00pm (t-1) and ending at 8:15 a.m. ET.

“Position Transfer” - this is the CDCC Clearing Application function to move a position from one Clearing Member to another.

“Production Schedule” - all of the time lines that are followed by CDCC, as set forth in Section 2 of this Operations Manual.

“Regular Clearing Cycle” - clearing cycle starting at 8:15am and ending at 5:30pm ET.

“Request for Standard vs Mini Offset” - the request by a Clearing Member, in the form prescribed by CDCC, to offset one (1) or more Long Position(s) on a Standard Contract against the equivalent number of Short Positions on the corresponding Mini Contract (~~totalling~~totaling the same quantity of the Underlying Interest in accordance with the ratio prescribed in the Contract Specifications of the Mini Contract), having the same Delivery Month and booked in the same Clearing Member’s account, or the other way around.

“Running Repurchase Transaction” - a Repurchase Transaction in respect of which the Open Leg has already settled at the time of the relevant report.

“Secured Website” - Clearing Members only secured web site that requires a sign on and password, where CDCC publishes Operational Notices as well as documents that are meant only for the Clearing Members.

“SFTP Downloads” - Clearing Member’s access to files and reports on an SFTP server that is part of the CDCC Clearing Application

“Specific Deposit” - a Put Escrow Receipt, a Call Underlying Interest Deposit or a Futures Underlying Interest Deposit which are accepted by CDCC as Underlying Interest Equivalent to cover a specific Short Position.

“Standard Contract” - a Future or Option in relation to which a Mini Contract exists.

“Tenderer” - a Clearing Member that holds a Short Position in a particular Series of Futures and submits a Tender Notice, or is deemed to do so in accordance with the Rules, to CDCC.



“TRS Base Initial Margin” - has the meaning given to “Swap Base Initial Margin” in Section A-102 of the Rules.

“TRS Basket Share” - has the meaning given to “Basket Share” in Section D-801 of the Rules.

“TRS Corporate Action” - has the meaning given to “Corporate Action” in Section D-801 of the Rules.

“TRS Designated Custodian” - has the meaning given to “Designated Custodian” in Section D-801 of the Rules.

“TRS Designated Depository” - has the meaning given to “Designated Depository” in Section D-801 of the Rules.

“TRS Designated Financial Institution” - has the meaning given to “Designated Financial Institution” in Section D-801 of the Rules.

“TRS Economic Term” - has the meaning given to “Economic Terms” in Section D-801 of the Rules

“TRS Eligible Basket” - has the meaning given to “Eligible Basket” in Section D-801 of the Rules.

“TRS Eligible Index” - has the meaning given to “Eligible Index” in Section D-801 of the Rules.

“TRS Equity Leg” - has the meaning given to “Equity Leg” in Section D-801 of the Rules.

“TRS Equity Notional Amount” - has the meaning given to “Equity Notional Amount” in Section D-801 of the Rules.

“TRS Extraordinary Event” - has the meaning given to “Extraordinary Event” in Section D-801 of the Rules.

“TRS Floating Amount” - has the meaning given to “Floating Amount” in Section D-801 of the Rules.

“TRS Floating Leg” - has the meaning given to “Floating Leg” in Section D-801 of the Rules.

“TRS Floating Notional Amount” - has the meaning given to “Floating Notional Amount” in Section D-801 of the Rules.

“TRS Floating Notional Reset Date” - has the meaning given to “Floating Notional Reset Date” in Section D-801 of the Rules.

“TRS Floating Rate” - has the meaning given to “Floating Rate Option” in Section D-801 of the Rules.

“TRS Floating Rate Reset Date” - has the meaning given to “Floating Rate Reset Date” in Section D-801 of the Rules.

“TRS Margin” - has the meaning given to “Swap Margin” in Section A-102 of the Rules.

“TRS Margin Fund Account” - the CDCS record provided to each Clearing Member containing all TRS Margin deposited by such Clearing Member to CDCC further to entering into a Proprietary Swap Transaction, in respect to the Firm Margin Accounts for any of the following: (1) TRS Base Initial Margin, (2) Additional Margin for Market Liquidity Risk, (3) Additional Margin for Intra-Day Variation Margin Risk, (4) Additional Margin for Banking Holiday Risk, (5) Additional Margin for Capital Risk, (6) Additional Margin



for Stress Test Risk, and (7) Additional Margin for Dividend Payment Risk; the whole in accordance with the Risk Manual, or otherwise as set forth in Section 8 hereof.

“TRS Maturity Date” - has the meaning given to “Maturity Date” in Section D-801 of the Rules.

“TRS Net Settlement Amount” - has the meaning given to “Swap Net Settlement Amount” in Section D-801 of the Rules.

“TRS Termination Date” - has the meaning given to “Termination Date” in Section D-801 of the Rules.

“Unsettled Item” - any delivery of the Underlying Interest that has not been settled at the Central Securities Depository.

“(Fixed Income) Variation Margin Account” - the CDCS record provided to each Clearing Member containing all Margin deposits made by such Clearing Member to CDCC for (Fixed Income) Net Variation Margin Requirement purposes only, in accordance with Section D-607 of the Rules, or otherwise as set forth in Section 8 hereof.

“Weekly Options” - Options that expire on any Friday, other than Expiry Friday. Only monthly Options expire on Expiry Friday.



SECTION 2 TIME FRAMES

ON-LINE ACCESS

Each Clearing Member must be connected to the CDCC Clearing Application using its PC terminals to perform a variety of functions. (Clearing Members must supply their own PC terminals and Internet connection, at their own cost).

All instructions (corrections, Open Position changes, Position Transfers, Deposits, contributions, withdrawals, and submission of Exercise Notices and Tender Notices) must be entered on-line.

The CDCC Clearing Application allows Clearing Members to view their current information throughout the day electronically (except during scheduled maintenance or unforeseen outages). In addition, Clearing Members can download their reports after 9:30 p.m. every day (except on expiry days - see Time ~~Frame~~Frames sections) using the SFTP Download function.

Should a Clearing Member not have electronic access to the CDCC Clearing Application during Business Hours, CDCC can perform instructions on behalf of the Clearing Member. This requires a phone call from the Clearing Member to CDCC, along with the appropriate form faxed or scanned and e-mailed to CDCC. Such form must be signed by an Authorized Representative of the Clearing Member.

With respect to operational activity related to Options with an Expiration Date on Expiry Friday, CDCC staff members are available from 7:00 a.m. to fifteen (15) minutes after delivery of the Options Exercised and Assigned Report (MT02).

TIME FRAMES

SETTLEMENT TIME FOR EVERY BUSINESS DAY

Activity	Time Frames	Activity Type
Beginning of Clearing Day and Overnight Clearing Cycle	8:00 p.m. (t-1)	System Activity
Clearing Member's (excluding LCMs) Overnight Margin Calculation & Notification	Every hour from 10:00 p.m. (t-1) to 7:00 a.m. and 8:15 a.m. (t)	System Activity/Notification
Deadline to settle Overnight Margin Call notification	2 hours after	Obligation Deadline
Beginning of Settlement Day at CDS	5:30 a.m.	System Activity
End of Overnight Clearing Cycle	8:15 a.m.	System Activity
Beginning of Regular Clearing Cycle	8:15 a.m.	System Activity
Assets Concentration Limits breach notification	7:30 a.m.	Notification
Deadline for Clearing Members (excluding LCMs) for Settlement Time with respect to payments for overnight settlement	8:15 a.m.	Obligation Deadline
Fixed Income Transactions - Netting Cycle Timeframe in respect of any Pending Settlement Requirements - 15 minutes cycle	8:30 a.m.	System Activity
Deadline for Clearing Members (excluding LCMs) to receive EOD Amount due from CDCC	8:45 a.m.	Obligation Deadline
SGC Securities Adjustment and SGC Initial Securities Adjustments Settlement Time	9:30 a.m.	Obligation Deadline
SGC Concentration Limits compliance	9:30 a.m.	Obligation Deadline
Deadline for LCMs for Settlement Time with respect to payments for overnight settlement	9:00 a.m.	Obligation Deadline
Fixed Income Transactions - Morning Netting Cycle Timeframe in respect of any Pending Payment Against Delivery Requirements (Morning Net Payment Against Delivery Requirements sent to CDS for settlement during the Morning Net DVP Settlement Timeframe) - 15 minutes cycle	10:00 a.m.	System Activity
Morning Net DVP Settlement Calculation	10:15 a.m.	System Activity
Deadline for Morning Net DVP Settlement	10:30 a.m.	Obligation Deadline
Clearing Member's (excluding LCMs) Morning Intra- Day Margin Calculation & Notification	10:30 a.m.	System Activity/Notification
SGC Maturity Settlement Time	10:30 a.m.	Obligation Deadline

TIME FRAMES

Deadline to settle Morning Intra-Day Margin Call for Clearing Members (excluding LCMs)	1 hour after notification	Obligation Deadline
ACV Securities Requirement Delivery - Deadline on any given day pursuant to an Open Leg or Close Leg of the SGC Repurchase Transaction	8:30 a.m.	Obligation Deadline
Start of the SGC Close Leg process	8:30 a.m.	Operational Activity/Notification
End of the SGC Close Leg process & Deadline for SGC Clearing Members to cover payment obligation	10:30 a.m.	Obligation Deadline
SGC Clearing Members - Beginning of SGC Repurchase Transaction Submission Period - Sale of SGC Securities (3 Business Day Prior Notice)	11:00 a.m.	Operational Activity/Notification
Assets Concentration Limit breach correction deadline	11:45 a.m.	Obligation Deadline
Fixed Income Transactions - Netting Cycle Timeframe in respect of any Pending Settlement Requirements - 15 minutes cycle	12:15 p.m.	System Activity
Clearing Member's Afternoon Intra-Day Margin Calculation & Notification	12:45 p.m.	System Activity/Notification
SGC Securities Adjustment Requirement and SGC Initial Securities Adjustments Calculation and Notification	12:45 p.m.	System Activity/Notification
Deadline to settle Afternoon Intra-Day Margin Call for Clearing Members (excluding LCMs)	1 hour after notification	Obligation Deadline
SGC Securities Adjustment and SGC Initial Securities Adjustments Settlement Time	2 hours after notification	Obligation Deadline
Specific Deposits (same day withdrawal)	12:45 p.m.	Operational Deadline
Deadline to settle Intra-Day Margin Call and Additional Margins for LCMs	The later of 2:45 p.m. or 2 hours after notification	Obligation Deadline
Fixed Income Transactions - Netting Cycle Timeframe in respect of any Pending Settlement Requirements - 15 minutes cycle	2:00 p.m.	System Activity
CAD Deposits - \$10,000,000 and under (same day deposit)	2:45 p.m.	Operational Deadline
CAD Deposits - over \$10,000,000 (2 Business Days <u>or Swap Business Days</u> notice)	2:45 p.m.	Operational Deadline

TIME FRAMES

CAD withdrawal requests - \$10,000,000 and under (same day withdrawal)	2:45 p.m.	Operational Deadline
CAD withdrawal requests - over \$10,000,000 (2 Business Days <u>or Swap Business Days</u> notice)	2:45 p.m.	Operational Deadline
SGC Clearing Members - End of SGC Repurchase Transaction Submission Period (3 Business Day Prior Notice)	3:00 p.m.	Operational Deadline
Fixed Income Transactions - (Same Day Transactions) - Submission Cut-Off Time	3:30 p.m.	Operational Deadline
Clearing Members (excluding LCMs) - All Assets deposits other than cash (Margin deposits)	3:30 p.m.	Operational Deadline
Clearing Members - All Assets withdrawal requests other than cash (Margin deposits) for same day withdrawal	3:30 p.m.	Operational Deadline
Clearing Members - All Assets substitution requests other than cash (Margin deposits) for same day substitution	3:30 p.m.	Operational Deadline
Foreign currency withdrawal requests deadline	3:30 p.m.	Operational Deadline
Fixed Income Transactions - Afternoon Netting Cycle Timeframe in respect of any Pending Settlement Requirements (Afternoon Net DVP Settlement Requirements sent to CDS for settlement by End of Day DVP Settlement Time) - 5 minutes cycle	3:35 p.m.	System Activity
CDS Payment Exchange, Net Wire Payment	4:00 p.m.	System Activity
ACV Securities (same day withdrawal)	4:00 p.m.	Operational Deadline
End of Day DVP Settlement Time	4:00 p.m.	Obligation Deadline
Unsettled Item (Options Underlying deliveries only): Confirmation of settled items to be sent to CDCC	4:15 p.m.	Operational Deadline
Deadline for CDCC to respond to substitution or withdrawal request (other than (Fixed Income) Variation Margin)	4:30 p.m.	Obligation Deadline
OTCI (other than Fixed Income Transactions) - Trade Submission Deadline	4:30 p.m.	Operational Deadline
Projected Margin Report Computation	4:30 p.m.	System Activity

TIME FRAMES

SGC Securities Adjustment Requirement and SGC Initial Securities Adjustments Calculation and Notification	4:30 p.m.	System Activity
SGC Concentration Limits breach notification	4:30 p.m.	Notification
Request for Standard vs Mini Offset	5:00 p.m.	Operational Deadline
Position Transfers	5:25 p.m.	Operational Deadline
Same Day and T+1 Trade corrections	5:30 p.m.	Operational Deadline
Futures - Tender Notices submission	5:30 p.m.	Operational Deadline
Options - Exercise Notices submission	5:30 p.m.	Operational Deadline
Fixed Income Transactions and Futures contracts on Acceptable Securities - Netting Cut Off Time (Netted settlement instructions (Net Delivery Requirements and Net Payment Against Delivery Requirements) sent to CDS for settlement on the next Business Day)	6:15 p.m.	System Activity
FIFO: Daily reporting by Clearing Members of the Long Positions in each of their accounts in chronological order	5:30 p.m.	Operational Deadline
FIFO: Submission of Tender Notices	5:30 p.m.	Operational Deadline
Open Position changes / Position Change Submission (PCS)	6:00 p.m.	Operational Deadline
End of Regular Clearing Cycle and CDCC Clearing Application shutdown - Close of Business	6:00 p.m.	System Activity
LCM Only - All Assets deposits other than cash (in respect of all Margin requirements)	6:30 p.m.	Operational Deadline
Fixed Income Transactions - available (next Business Day start)	7:00 p.m.	System Activity
GCM Position Adjustment availability	7:00 p.m.	System Activity
GCM Position Adjustment end of availability	8:45 p.m.	Operational Deadline
GCM Declaration File - Submission-	Before 9:00 p.m.	Operational Deadline
GCM Settlement Calculation	9:00 p.m.	System Activity

SETTLEMENT TIME FOR (FIXED INCOME) VARIATION MARGIN FOR EVERY BUSINESS DAY

TIME FRAMES

Activity	Time Frames	Activity Type
Deadline to deliver securities to CDCC to settle <u>(Fixed Income) Net Variation Margin Requirement</u>	9:30 a.m.	Obligation Deadline
Deadline to submit to CDCC a (Fixed Income) Buy-In request for same day settlement	10:00 a.m.	Operational Deadline
Deadline to deliver securities to Clearing Members by CDCC to settle (Fixed Income) <u>Net Variation Margin amountRequirements</u>	10:30 a.m.	Obligation Deadline
Deadline to submit substitutions for same day settlement	11:00 a.m.	Operation Deadline
Deadline for CDCC to submit substitution instructions to Clearing Members for same day settlement	12:00 (noon)	Operational Deadline
Deadline to deliver same day settlement substitution to CDCC	3:00 p.m.	Obligation Deadline
Deadline for CDCC to deliver same day substitutions for <u>(Fixed Income) Variation Margin in respect of Fixed Income Transactions</u>	4:00 p.m.	Obligation Deadline
EOD <u>(Fixed Income) Net Variation Margin Requirement Computation</u>	4:30 p.m.	System Activity

TIME FRAMES

SETTLEMENT TIME FOR PROPRIETARY SWAP TRANSACTIONS FOR EVERY SWAP BUSINESS DAY

<u>Activity</u>	<u>Time Frames</u>	<u>Activity Type</u>
<u>TRS Margin Assets Concentration Limits breach notification</u>	<u>8:30 a.m.</u>	<u>Notification</u>
<u>Deadline for Swap Clearing Members to pay the TRS Net Settlement Amount</u>	<u>9:00 a.m.</u>	<u>Obligation Deadline</u>
<u>Deadline for Swap Clearing Members to settle end of day Margin call for TRS Margin</u>	<u>9:00 a.m.</u>	<u>Obligation Deadline</u>
<u>Start of Proprietary Swap Transaction novation process</u>	<u>9:30 a.m.</u>	<u>System Activity</u>
<u>Deadline for Swap Clearing Members to receive end of day TRS Net Settlement Amount due from CDCC</u>	<u>9:45 a.m.</u>	<u>Obligation Deadline</u>
<u>TRS Margin morning Intra-Day Swap Margin Call calculation and notification</u>	<u>10:30 a.m.</u>	<u>System Activity/Notification</u>
<u>Deadline to settle morning Intra-Day Swap Margin Call for TRS Margin Fund</u>	<u>1 hour after notification</u>	<u>Obligation Deadline</u>
<u>TRS Margin Assets Concentration Limit breach correction deadline</u>	<u>11:45 a.m.</u>	<u>Obligation Deadline</u>
<u>TRS Margin afternoon Intra-Day Swap Margin Call calculation and notification</u>	<u>12:45 p.m.</u>	<u>System Activity/Notification</u>
<u>Deadline to settle afternoon Intra-Day Swap Margin Call for TRS Margin</u>	<u>1 hour after notification</u>	<u>Obligation Deadline</u>
<u>Deadline for USD cash deposit requests</u>	<u>2:15 p.m.</u>	<u>Operational Deadline</u>
<u>Deadline for USD cash withdrawal requests</u>	<u>2:15 p.m.</u>	<u>Operational Deadline</u>
<u>Deadline for all non-cash Assets deposit requests effected through a TRS Designated Custodian</u>	<u>3:00 p.m.</u>	<u>Operational Deadline</u>
<u>Deadline for all non-cash Assets withdrawal requests effected through a TRS Designated Custodian</u>	<u>3:00 p.m.</u>	<u>Operational Deadline</u>
<u>Deadline for all non-cash Assets substitution requests effected through a TRS Designated Custodian</u>	<u>3:00 p.m.</u>	<u>Operational Deadline</u>
<u>Cut-off of Proprietary Swap Transaction submissions</u>	<u>3:40 p.m.</u>	<u>System Activity</u>
<u>Cut-off of Proprietary Swap Transaction matching</u>	<u>3:45 p.m.</u>	<u>System Activity</u>
<u>TRS Margin end of day Margin Calculation & Notification</u>	<u>4:30 p.m.</u>	<u>System Activity/Notification</u>

TIME FRAMES

<u>Activity</u>	<u>Time Frames</u>	<u>Activity Type</u>
<u>Deadline for all non-cash Assets deposit requests effected through a TRS Designated Depository</u>	<u>6:00 p.m.</u>	<u>Operational Deadline</u>
<u>Deadline for all non-cash Assets withdrawal requests effected through a TRS Designated Depository</u>	<u>6:00 p.m.</u>	<u>Operational Deadline</u>
<u>Deadline for all non-cash Assets substitution requests effected through a TRS Designated Depository</u>	<u>6:00 p.m.</u>	<u>Operational Deadline</u>

TIME FRAMES

SETTLEMENT TIME FOR MONTHLY EXPIRY

Activity	Time Frames	Activity Type
Reports available (SFTP Download):	7:15 p.m.	Publication
➤ Expiry Report (MX01)		
➤ Expiry Options Daily Transaction Report (MT01)		
➤ List of Options/Cash Adjustments (MT03)		
CDCC Clearing Application available for:	7:15 to 9:15 p.m.	Operational Deadline
➤ Trade corrections		
➤ Open Position changes		
➤ Position Transfers		
➤ Changes to Automatic Exercises		
➤ Exercise Notices input		
➤ Cancel / correct Friday's exercises		
CDCC Clearing Application shutdown:	9:15 p.m.	Operational Deadline
➤ CDCC processes expiry entries		
Reports available (SFTP Download):	9:30 p.m.	Publication
➤ List of Expiry Adjustments Report (MX02)		
➤ Expiry Difference Report (MX03)		
CDCC Clearing Application available again for:	9:30 to 9:45 p.m.	Operational Deadline
➤ Review of expiry entries		
➤ Corrections to expiry entries		
CDCC Clearing Application shutdown	9:45 p.m.	Operational Deadline
➤ Close of Business		
Reports available (SFTP Download):	10:30 p.m.	Publication
➤ Options Exercised and Assigned Report (MT02)		
➤ Other reports and files also available		

TIME FRAMES

SETTLEMENT TIME FOR WEEKLY EXPIRY

Activity	Time Frames	Activity Type
CDCC Clearing Application available for:	7:00 to 8:00 p.m.	Operational Deadline
➤ Trade corrections		
➤ Open Position changes		
➤ Position Transfers		
➤ Changes to Automatic Exercises		
CDCC Clearing Application shutdown:	8:00 p.m.	Operational Deadline
➤ Close of Business		
Reports available (SFTP Download):	9:45 p.m.	Operational Deadline
➤ Options Exercised and Assigned Report (MT02)		
➤ Other reports and files also available		



TIME FRAMES

ADDITIONAL NET DVP SETTLEMENT PROCESS

In respect of any Pending Payment Against Delivery Requirements at the Netting Cycle Timeframe(s) specified in Section 2 of this Operations Manual, CDCC shall send new settlement records (Net Payment Against Delivery Requirements) to the Central Securities Depository reducing any Pending Payment Against Delivery Requirements of a Clearing Member in favour of CDCC by any Pending Payment Against Delivery Requirements of CDCC in favour of the same Clearing Member.



SECTION 3 REPORTS

REPORT REFERENCES

Clearing Member reports contain the following information:

Transactions	Reports relating to Clearing Member's Transactions such as trade entries, trade corrections, trade rejections and exercises/tenders. These reports start with the alpha code MT.
Fees	Report relating to the collection of service fees from the Clearing Member. These reports start with the alpha code MB.
Settlements	Reports relating to Premiums, Settlement of Gains and Losses, and Margin. These reports start with the alpha code MS.
Assets	Reports relating to the maintenance of Clearing Member's Assets as well as depository information. These reports start with the alpha code MA.
Delivery	Reports relating to delivery obligations and unsettled deliveries. These reports start with the alpha code MD.
Positions	Reports relating to positions held by Clearing Members separately for Futures, Options, OTCI, <u>Proprietary Swap Transactions</u> , and Fixed Income Transactions. These reports start with the alpha code MP.
Expiry	Reports used by Clearing Members to verify expiring positions and Automatic Exercises. These reports start with the alpha code MX.
Risk	Reports relating to risk management. These reports start with the alpha code MR.

REPORT DETAILS

Report Code	Report Name	Report Description
Daily:		
MA01	Collateral Report	Details on Clearing Member's deposits and withdrawals for Margin Fund Accounts (Firm, GCM Regime, Non-GCM Regime), Clearing Fund and (Fixed Income) Variation Margin Account. <u>Details deposits and withdrawals for Swap Margin obligations in a separate section.</u> (Note: will find the letters D, W and PW next to the date of deposit)
MA30	SGC Repurchase Transactions Activity Report	Lists Asset balances with SGC Securities Adjustment, SGC Securities Initial Adjustment requirements and SGC Securities sale settlement in Canadian dollars.
MD01	Options Unsettled Delivery Report	Lists unsettled deliveries for Options.
MD51	Futures Unsettled Delivery Report	Lists unsettled deliveries for Futures (does not include Share Futures) - the issue and number of Futures contracts which must be delivered - the account to which the delivery has been assigned and the opposite Clearing Member - the Settlement Amount and Settlement Date
MD52	Share Futures Unsettled Delivery Report	Lists unsettled deliveries for Share Futures (SF) - the issue and number of SF contracts which must be delivered - the account to which the delivery has been assigned and the opposite Clearing Member - the Settlement Amount and Settlement Date
MD70	Fixed Income Net Settlement Delivery Status Report	Status of Clearing Member's settlement activity at the Central Securities Depository with respect to Acceptable Securities on that day.
MD71	Settlement Obligation Calculated Amounts Reports	Provide information on each Settlement Instruction produced at the exit of the Intra-Day netting that is being considered in the PITSO.
MD72	Settlement Obligation Fulfillment	Provide the different settlement instruction status changes during the PITSO. The report is separated in three sections: Settlement, Pending Party At Fault and Cancelled.
MI12	U/I Primary Exchange	List of the underlying prices

Report Code	Report Name	Report Description
M012	Converge Option Price	List of the Clearing Member's <u>Member's</u> Converge option prices
MP01	Options Open Positions Report	Lists the Clearing Member's Open Positions for puts and calls.
MP02	Sub-Account Options Open Positions Report	Lists all Options Open Positions in sub-accounts of the Clearing Member's Client Account(s), Firm Account(s) and Multi-Purpose Account(s).
MP21	Contract Adjustment Report	Lists the Clearing Member's Long Positions and Short Positions before and after the relevant contract adjustment. <u>Lists the details of all TRS Corporate Actions and TRS Extraordinary Events activities that result in adjustments to the TRS Eligible Basket on a Proprietary Swap Transaction.</u>
MP51	Futures Open Positions Report	Lists the Clearing Member's Futures and Options on Futures Open Positions for all accounts.
MP53	GCM Forecasted Balance Account Report	Lists the Clearing Member's clients Futures and Options on Futures Open Positions declared via the GCM Declaration File at the time of the GCM file submission highlighting the forecasted balance account positions.
MP54	GCM Declaration File Report	Details the results of the GCM Declaration File received from Clearing Members and provide any errors found (in CSV format)
MP55	GCM Balance Account Report	Lists the Clearing Member's Clients Futures and Options on Futures Open Positions declared via the GCM Declaration File with the associated Margin figures of each individual client account within the Client Account Omnibus structure.
MP70	Fixed Income Forward Repo Position Report	Lists the Clearing Member's Repurchase Transactions accepted for clearing by CDCC.
MP71	Fixed Income Forward Repo Conversion	Lists all of the Clearing Member's Repurchase Transactions that have progressed from Forward Repurchase Transactions to Running Repurchase Transactions on that day.
MP73	Fixed Income Running Repo Open Positions Report	Lists all of the Clearing Member's Running Repurchase Transactions as of that day.
MP75	Fixed Income Forward Net Settlement Positions Report	Lists all of the Clearing Member's Forward Net Settlement Positions obligations.
MP79	Daily Repo Rate Mark to Market Report	Lists the Clearing Member's Repo Rate Requirements.
<u>MP85</u>	<u>TRS Daily Detailed Report</u>	<u>Listing information related to any Proprietary Swap Transactions held by the Clearing Member, including</u>

Report Code	Report Name	Report Description
		<u>notional amounts, rates, funding settlements, performance settlements, dividend payments & Next Reset Dates.</u>
MS01	Daily Settlement Summary Report	Lists assets <u>Asset</u> balances with Margin requirements for each Margin Fund Accounts <u>Account</u> (Firm, GCM Regime and Non-GCM Regime) and , cash settlements <u>settlements</u> in Canadian and U.S. dollars <u>from Options or Futures trades or positions and cash settlements in U.S. dollars from Proprietary Swap Transactions.</u>
MS06	Total Margin Requirement Report	Total Margin requirement report with breakdown by Margin Fund Accounts (Firm, GCM Regime and Non-GCM Regime) categories, account types (Firm, Client, Multi-Purpose) and sub-accounts.
MS07	Margin Report By Collateral Pool	Margin call details with Margin requirements by Margin Fund Accounts (Firm, GCM Regime and Non-GCM Regime) and Risk Accounts.
MS08	Daily Margin Positions Report	Lists details of positions by Class Group with Margin requirements.
MS10	Variation Margin Summary Report	Lists the details of the Fixed Income Clearing Member's Variation Margin activities and suggests securities to return if applicable.
MS30	SGC Securities Adjustment Requirement Report	SGC Securities Adjustment and SGC Initial Securities Adjustment requirement detailed per Series for the SGC Securities on a net basis and for all Series for the SGC Securities on a net basis.
MS70	Fixed Income Net Settlement Position Activity Report	Lists all of the Clearing Member's Fixed Income Transactions activities that contribute to its Net Settlement Position.
MS72	Fixed Income Net Settlement Position Summary Report	Lists a summary of the Clearing Member's Fixed Income Transactions activities that contribute to its Net Settlement Position.
MS73	Entitlement Report	Lists all Fixed Income Clearing Member's coupon payments.
MS75	Fixed Income End of Day Settlement Instruction Report	Detail of Clearing Member's net settlement instructions to be sent to the Central Securities Depository after Netting Cut-Off Time.
MS77	Net Payment Against Delivery Requirement	Provide information at the sub-account level on settlements that occurred during the PITSO.
MS78	Forward NSP & Settlement Instruction Reconciliation Report	Information report containing Net Settlement Position information for the use of Clearing Member for reconciliation.

Report Code	Report Name	Report Description
<u>MS85</u>	<u>Intra-day/end of day Swap Margin Call Report</u>	<u>Lists Intra-Day Swap Margin Call and end of day Margin call details with Margin requirements and Assets balances of a Proprietary Swap Transaction</u>
MT01	Options Daily Transaction Report	Lists details for all Option contracts from previous Business Day.
MT02	Options Exercised and Assigned Report	Lists totals for Options Exercised Positions and Assigned Positions by Series of Options (including the debit and credit dollar values of the Transactions).
MT03	List of Options/Cash Adjustments Report	Lists all trade adjustments and Open Position changes including cash adjustments and Position Transfers.
MT05	Options Consolidated Activity Report	Lists all positions with activity including Option Premiums.
MT06	Options SubAccount Consolidated Activity Report	Lists positions with activity including Option Premiums for only the subaccounts of Client, Firm and Multi-Purpose.
MT10	Unconfirmed Items Report	Lists all items that remained unconfirmed by the opposite member at the end of the current Business Day- <u>or Swap Business Day.</u>
MT29	Trades Rejection Modification Report	Lists all original and modified trade rejections for the Clearing Member.
MT51	Final Futures Daily Transaction Report	Lists trade details for all Futures and Options on Futures activity.
MT52	Futures Tenders and Assignments Report	Lists all Tender Notices and Assigned Positions details.
MT53	List of Futures/Cash Adjustments Report	Lists details on all Futures and Options on Futures trade adjustments, Open Position changes, including cash adjustments and Position Transfers.
MT54	Futures Trading Summary Report	Lists all Series of Futures and Options on Futures and prices, and volumes at which each were traded. Lists number of contracts bought and sold for each Series of Futures Trade Prices.
MT60	Single Stock Futures Tenders and Assignments	Lists totals for Share Futures (SF) tendered and assigned positions including the debit and credit dollar values of the transactions.
MT66	Futures Sub-Account Consolidated Activity Report	Lists Futures and Options on Futures positions with activity including Settlement of Gain and Losses and Futures Premiums respectively, for the sub-accounts of Client, Firm and Multi-Purpose.

Report Code	Report Name	Report Description
MT70	Fixed Income Novated Transactions Report	Lists the Clearing Member's daily Fixed Income Transactions novated to CDCC in accordance with the CDCC Clearing Application.
MT71	Fixed Income Novated Trades Report	Lists the data transmitted to CDCC by the Central Securities Depository with respect to the Clearing Member's daily Fixed Income Transactions submitted for clearing.
MT74	Fixed Income Not-Novated Transactions Report	Lists the Clearing Member's daily Fixed Income Transactions that were not novated to CDCC, including all rejected and orphaned trades.
MT85	TRS Activity Report	Lists any activities related to Proprietary Swap Transactions, including amendments, and failed submissions.
MT92	Options on Futures Exercised & Assigned Report	Lists totals for Options on Futures Exercised Positions and Assigned Positions by Series. (Note: Futures Options Exercised Positions and Assigned Positions value is nil.)
MT99	Detailed Futures Consolidated Activity Report	Detailed list of all Futures position with activity, including Settlement of Gains and Losses. Detailed list of all Options on Futures positions and activity including Futures Premiums.
Monthly:		
MA71	Clearing Fund Statement (monthly and intra-monthly)	Identifies the Clearing Member's (excluding LCM) Clearing Fund obligation. Lists the Clearing Member's (excluding LCM) current Deposits within the Core Tranche of the Clearing Fund and what is owed. In a separate section, identifies the Clearing Member's current deposits within the Swap Tranche of the Clearing Fund and what is owed, to be paid separately.
MA80	Supplemental Liquidity Fund Statement (monthly and intra-monthly)	Identifies the Clearing Member's (excluding LCM) Supplemental Liquidity Contributions. Lists the Clearing Member's (excluding LCM) current Supplemental Liquidity Contributions within the Supplemental Liquidity Fund and what is owed. In a separate section, identifies the Clearing Member's Swap Liquidity Contributions in the Swap Tranche of the Supplemental Liquidity Fund. Lists the Clearing Member's current Supplemental Liquidity Contributions within the Swap Tranche of the Supplemental Liquidity Fund and what is owed, to be paid separately.
MB01	Monthly Clearing Fees Invoice	This report contains summarization of the monthly clearing fees in an invoice format - THIS IS NOT TO

Report Code	Report Name	Report Description
		BE PAID. The system automatically includes the collection of the fees within the daily settlement on the morning of the fifth Business Day of the month.
MB02	Monthly Clearing Fees Details Report	This report contains the following four sub-reports: “Fees” – this is product by sub-account. “Summary by Category” – this is summarization by product.
<u>MB02</u>	<u>Monthly Clearing Fees Details Report</u>	<u>This report contains the following four sub-reports: “Fees” - this is product by sub-account. “Summary by Category” - this is summarization by product. “Sub-Account Summary” - this is a summary of the operational charges by sub-account irrespective of product. “Summary by Account Operation Type” - this is a summary of the operational charges by sub-account.</u>
		“Summary by Account Operation Type” – this is a summary of the operational charges by sub-account.
MB03	Monthly Fixed Income Clearing Fees Invoice	This report details the clearing fees that are due with respect to Fixed Income Transactions by each Clearing Member.
MT40	Broker Ranking by Account Report	Individual Clearing Member ranking within CDCC for contracts, value traded and transactions (trade only) by month with year to date.
FIFO Period:		
MP56	FIFO Position Report	Lists Series of Futures with positions in chronological order, contracts in positions.
MP60	FIFO Declaration vs. Open Position Report	Lists Clearing Member’s Futures positions and FIFO Long Positions declaration.
Options on Futures Expiry:		
MT51	Final Futures Daily Transaction Report	Lists trade details for all Futures and Options on Futures activity.
MX11	Futures Options Expiry Report	Lists all expiring Options on Futures with In-the-Money Options or Out-Of-the-Money Options amounts and Automatic Exercise positions for Expiry.
MX12	Futures Options Expiry Adjustments Report	Lists all trade adjustments and Open Positions changes on expiring Series only.

MX13	Futures Options Expiry Difference Report	Lists all reported changes, deletions and/or additions to exercises on the Futures Options Expiry Report (MX11).
Options Expiry (Friday Evening):		
MT01	Options Daily Transaction Report	Lists trade details for all expiring Option contracts for the Business Day.
MT02	Options Exercised and Assigned Report	Lists totals for Options Exercised Positions and Assigned Positions by Series of Options (including the debit and credit dollar values of the transactions).
MX01	Expiry Report	Lists all expiring Options with In-the-Money Options or Out-of-the-Money Options amounts and Automatic Exercise positions for Expiry.
MX02	List of Expiry Adjustments Report	Lists all trade adjustments and Open Positions changes on expiring Series of Options only.
MX03	Expiry Difference Report	Lists all reported changes, deletions and/or additions to exercises on the Expiry Report.
OTCI Expiry:		
MX01	Expiry Report	Lists all expiring Options with In-the-Money Options or Out- of-the-Money Options amounts and Automatic Exercise positions for Expiry.
Business Day following Expiry:		
MP11	Expired Options Positions Report	Lists the Clearing Member's balance of expired Options positions following the Friday Expiry process.
MP12	Expired Futures Options Positions Report	Lists the Clearing Member's balance of expired Futures Options positions following the Friday Expiry process.



SECTION 4 TRADE PROCESSING

INTRODUCTION

All Exchange Transactions are processed electronically. In all cases both the selling and buying trade data is sent to the relevant Exchange's electronic trading system, which then transmits the matched trades to CDCC. The CDCC Clearing Application verifies the trade information and, if incorrect, rejects it for correction and resubmission. If the trade information is valid, the Clearing Member's Open Positions are immediately updated. The Exchange Transaction is reported on the Options Daily Transaction Report (MT01) or on the Final Futures Daily Transaction Report (MT51), as the case may be.

OTCI Transactions (other than Fixed Income Transactions) are also submitted electronically. Clearing Members submit their individual trade details onto the trade capture screens of Converge, which will match, validate and confirm the transactional details to the submitting Clearing Members. OTCI Options are reported on the Options Daily Transaction Report (MT01). No corrections will be permitted for OTCI Transactions after CDCC issues a Trade Confirmation.

Fixed Income Transactions will be transmitted through the CDS trade matching facility routing matched trades to CDCC.

Fixed Income Transactions are reported on the Fixed Income CSD Information Report (MT71).

The SGC Repurchase Transactions will be automated through CCMS. The SGC Repurchase Transaction will be reported by CDCC to the SGC Clearing Members in report MA30.

Proprietary Swap Transactions will be submitted electronically through the TRS Portal, a web interface of the CDCC Clearing Application, which will match, validate and confirm the transactional details to the submitting Clearing Members. A Bilateral Swap Transaction is automatically novated to CDCC upon validation and confirmation by CDCC in accordance with its Proprietary Swap Clearing procedures. No corrections will be permitted for Proprietary Swap Transactions after CDCC issues a Proprietary Swap Transaction confirmation. To correct Proprietary Swap Transactions, Clearing Members must terminate the applicable Proprietary Swap Transactions and submit a new Bilateral Swap Transaction for validation and confirmation.

Proprietary Swap Transactions are reported on the Total Return Swap Transaction Report (MT85).

The reports referred to herein are available for SFTP Downloads on the morning of the Business Day after Transactions are submitted for clearing to CDCC. In accordance with the Rules, Clearing Members must verify that such reports are correct.



TRADE PROCESSING

EXCHANGE TRANSACTIONS (OPTIONS AND FUTURES)

Positions of each Clearing Member are carried by CDCC for Client Account(s), Firm Account(s) and Multi-Purpose Account(s), each of which is maintained separately. CDCC supplies reports for each account.

Such separation requires that each Clearing Member designate whether a Transaction is submitted for a “Client”, “Firm” or “Multi-Purpose” when submitting a Transaction for clearing. Furthermore, if separate sub-accounts are maintained for each account type, each Transaction must be coded to indicate the appropriate sub-account information.

It is required that a Closing Transaction for a Client Account be designated as such on the trade input. Such designation is not required for a Multi-Purpose Account or a Firm Account, as CDCC carries net position records in the Open Position File for each of these accounts.

All Transactions for a Client Account which are not specifically designated as Closing Transactions shall be processed by CDCC as Opening Transactions. Opening Purchase Transactions increase the Long Position and Opening Writing Transactions increase the Short Position, in the particular Series of Options involved, as reported in the Clearing Member's Client Account. Opening Buy Transactions increase the Long Position and Opening Sell Transactions increase the Short Position, in the particular Series of Futures involved, as reported in the Clearing Member's Client Account.

Conversely, all Transactions designated as Closing Transactions decrease the Short Position and Long Position, respectively, for the particular Series of Options or Series of Futures in the reporting Clearing Member's Client Account. The CDCC Clearing Application verifies that all the Closing Transactions are valid and if the volume of a Closing Transaction exceeds the Open Position, the CDCC Clearing Application will reject it and replace it by an Opening Transaction for the entire volume.

The designation of a Transaction as “opening” or “closing” can be modified by the Close of Business.

CDCC maintains both the Long Position and the Short Position for each Series of Options and Series of Futures for Client Accounts but only maintains a net Long Position or net Short Position for each Series of Options and Series of Futures for Multi-Purpose Accounts and Firm Accounts.

FIXED INCOME TRANSACTIONS

Positions of each Clearing Member are carried by CDCC for Client Account(s), Firm Account(s) and Multi-Purpose Account(s), each of which is maintained separately. CDCC supplies reports for each account.

Such separation requires that each Clearing Member designate whether a Transaction is submitted for a “Client”, “Firm” or “Multi-Purpose” when submitting a Transaction for Clearing. Furthermore, if separate sub-accounts are maintained for each account type, each Transaction must be coded to indicate the appropriate sub-account information.

All Repurchase Transactions and Cash Buy or Sell Trades must be submitted for clearing to CDCC through the CDS trade matching facility routing matched trades to CDCC.

Once a Repurchase Transaction or Cash Buy or Sell Trade is received by CDCC, a variety of validations will occur. These validations ensure that all transactional details match and CDCC does not accept any Repurchase Transaction or Cash Buy or Sell Trade bearing attributes that are not acceptable for clearing.

Upon issuance of a Trade Confirmation by CDCC, the Repurchase Transaction or Cash Buy or Sell Trade is novated to CDCC, such that the original Repo 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 CDCC and one between the Buyer and CDCC.

PROPRIETARY SWAP TRANSACTIONS

Bilateral Swap Transactions submitted by each Clearing Member and validated by CDCC are novated to CDCC and the resulting positions are carried in the applicable Clearing Member’s Firm Accounts as designated by each applicable Clearing Member at the time of submission of the Bilateral Swap Transaction for Proprietary Swap Clearing via the TRS Portal.

CDCC requires all Economic Terms of Bilateral Swap Transactions to be provided in order to perform its validations and to proceed with matching.

CDCC will perform the following validations before accepting a Bilateral Swap Transaction for clearing:

1. Counterparty eligibility validation;
2. TRS Equity Leg eligibility validation;
3. TRS Floating Leg eligibility validation;
4. Notional amount validation;
5. Maturity validation;
6. CFTC Requirement Validation.

More specifically, for TRS Equity Leg eligibility, only TRS Eligible Baskets or TRS Eligible Indices are accepted for Proprietary Swap Transaction submission.

CDCC will confirm via the TRS Portal to counterparties the status of the Proprietary Swap Transaction, their details or if there is a reject and request correction. If there are Proprietary Swap Transactions still not matching at around 3:15 pm a notification would be sent to inform the corresponding Clearing Members.

SECTION 5 OPEN POSITIONS**INTRODUCTION**

Having accepted a Transaction, the next step in the CDCC Clearing Application is the determination of the Open Position. Each Clearing Member can view all the information related to their accounts on the Open Position File which records the open Long Position and Short Position for each Series of Options and Series of Futures, OTCI and Fixed Income Transactions for each account type, updating and, updates the information as each Transaction is accepted.

Each Clearing Member is responsible for reconciling the information recorded on the Open Position File and all relevant reports issued by CDCC against their internal records. Careful attention must be paid to account designation and whether the Transaction is coded as “opening” or “closing” in the relevant file or report. Reports are available for SFTP Download as per Section 2 of this Operations Manual.

Open Interest is updated automatically as each Transaction, Exercise Notice and Tender Notice is processed.

ADJUSTMENTS OF OPEN POSITIONS**GENERAL**

Occasionally the need will arise to adjust an already processed Transaction, other than a Proprietary Swap Transaction. In such cases, the adjustment will affect the Clearing Member's Open Position accordingly. For example, an adjustment designed to change the original Opening Buy Transaction (or Opening Purchase Transaction) to a Closing Buy Transaction (or Closing Purchase Transaction) will result in a decrease in the Long Position in the Series of Futures or Series of Options by the volume of the original Transaction. Any Settlement of Gains and Losses (or Premium) adjustments will be shown as adjustments on the relevant report.

Generally this situation will occur when:

1. The transactional details were incorrectly recorded, e.g. Clearing Member number, price, series and volume.
2. Information pertaining to only one side of the Transaction such as the opening/closing or account designation was erroneously reported on the original trade.
3. The source document of the relevant Exchange was input incorrectly.
4. Transfer of Open Positions from one account to another account of a Clearing Member.
5. Transfer of Open Positions from an account of one Clearing Member to an account of another Clearing Member.

Types of Adjustments

The following adjustments are acceptable for Exchange Transactions and OTCI (other than Fixed Income Transactions):

1. Same Day Trade Corrections (T). Same day trade corrections are only permitted on account type, sub-account designation and opening/closing and no corrections are permitted on OTCI Transactions after a Trade Confirmation has been issued by CDCC.
2. Trade Date + 1 Corrections (T+1). Modifications of any type are subject to approval by the relevant Exchange and no corrections permitted on OTCI Transactions.
3. Open Position Changes. For OTCI Transactions, these will be performed through the Position Transfer function of the CDCC Clearing Application. Note: there is a Position Transfer fee per contract.
4. Position Transfers. Specific function of the CDCC Clearing Application to move positions from one Clearing Member to another or between accounts of a same Clearing Member on a post trade basis. Note: there is a Position Transfer fee per contract.
5. Standard vs Mini Offset. Upon the receipt of a Request for Standard vs Mini Offset in the prescribed form, CDCC will offset (i) one or more existing Standard Contract Long Position(s) against the equivalent number of existing Mini Contract Short Positions (totalling the same quantity of the Underlying Interest in accordance with the ratio prescribed in the Contract Specifications of the Mini Contract) having the same Delivery Month and booked in the same Clearing Member's account, or (ii) a number of existing Mini Contract Long Positions against one or more Standard Contract Short Position(s) (totalling the same quantity of the Underlying Interest in accordance with the ratio prescribed in the Contract Specifications of the Mini Contract) having the same Delivery Month and booked in the same Clearing Member's account, based on the instructions provided in the Request for Standard vs Mini Offset. Such Long Positions and Short Positions shall be offset at the previous day's Settlement Price, with the effect of reducing the Open Positions that the Clearing Member has on the relevant Series of Futures in the relevant account. A Future may only be offset against a Future and an Option may only be offset against an Option.

Adjustments via the Gross Client Margin (GCM) Declaration File

Via submission of the GCM Declaration File, CDCC will perform a Position Change Submission ("GCM PCS") as part of the GCM Settlement Calculation. This will be performed on the CDCC Book Positions, to align the CDCC Open Positions with the Open Positions declared by the Clearing Member for (i) each Series of Futures and Futures Options, and (ii) for each client declared in the GCM Declaration File.

The position adjustment can only be performed if the CDCC net position (CDCC Long Position minus CDCC Short Position) is equal to the GCM declared net position (GCM declared Long Position - GCM declared Short Position) on the same Series of Futures or Futures Options, for a specific client declared in the GCM Declaration File. If the condition is met, CDCC will adjust both the CDCC Long Position and CDCC Short Position to what was declared in the GCM Declaration File. In the event of discrepancies between the CDCC Book Positions and net GCM declared positions, no position adjustment will be performed and the undeclared positions will be treated separately (see Additional Margin for Undeclared GCM Position Risk in the Risk Manual for more details).

Clearing Members may make use of the GCM Position Adjustment availability window to submit their GCM Declaration File to assess their declared positions with the CDCC Book Position. Clearing Members are

able to submit additional GCM Declaration File(s) anytime before the GCM Position Adjustment availability window closes should they wish to make further adjustments. Only the last declared file will be considered for the GCM Settlement Calculation and therefore the GCM PCS.

Additionally, in the event a Clearing Member fails to submit their GCM Declaration File, CDCC will use the previous Business Day's GCM Declaration File. While this mitigates the impact of having all the positions as undeclared positions and margined separately, changes in positions that occurred on the day of the missed declaration may result in undeclared positions. If the GCM Declaration File is not received for a second consecutive Business Day (or any following Business Days), CDCC will not use the previous GCM Declaration File and will treat all GCM client positions as undeclared positions in a separate Risk Account.

Conditions applicable to adjustments:

~~If there are any adjustments that affect another Clearing Member (on the opposite side of the original Transaction), both Clearing Members must come to an agreement as to the adjustments to be implemented. If one Clearing Member does not enter any changes through the CDCC Clearing Application, the Transaction will stay as is with respect to both Clearing Members.~~

RESET and SWAP AMENDMENTS TO PROPRIETARY SWAP TRANSACTIONS

Pre-Agreed Automatic Resets

Clearing Members can agree, as part of the TRS Economic Terms of a Proprietary Swap Transaction, for the TRS Floating Rate and TRS Floating Notional Amount of a Proprietary Swap Transaction to be automatically reset on each TRS Floating Rate Reset Date and TRS Floating Notional Reset Date, respectively.

The following pre-established resets shall take effect on each TRS Floating Rate Reset Date and TRS Floating Notional Reset Date, as applicable:

1. TRS Floating Notional Amount reset: If agreed upon by the parties to a Proprietary Swap Transaction as part of the TRS Economic Terms, on each TRS Floating Notional Amount Reset Date applicable for the Proprietary Swap Transaction, the notional amount of the Proprietary Swap Transaction over which it will calculate the TRS Floating Amount of the Proprietary Swap Transaction will be reset thus affecting the Proprietary Swap Transaction details. The new effective TRS Floating Amount on each such reset date of the Proprietary Swap Transaction will be equal to the TRS Equity Notional Amount calculated at the end of the day. This reset frequency can be fixed, daily and monthly, in accordance with the applicable convention specified in the TRS Economic Terms and calculated under Section D-806.
2. TRS Floating Rate reset: If agreed upon by the parties to a Proprietary Swap Transaction as part of the TRS Economic Terms, the TRS Floating Rate will be reset on each TRS Floating Rate Reset Date using the new determined rate. This reset frequency will be fixed, daily, or monthly, in accordance with the applicable convention specified in the TRS Economic Terms and calculated under Section D-806.

Requests to Amend Existing Proprietary Swap Transactions



TRADE PROCESSING

A request to amend a Proprietary Swap Transaction is subject to approval by the Corporation and both Clearing Members holding opposite positions, except if, in the case of termination, a unilateral right to terminate was agreed by the parties as part of the TRS Economic Terms. A Clearing Member must submit a request through the TRS Portal and the Clearing Member holding the opposite position must either accept or reject the request. A request that has not been confirmed by the specified time will not be completed and the Proprietary Swap Transaction will remain unamended.

Notification of all ~~adjustments~~amendments must be completed prior to the time specified in Section 2 of this Operations Manual. All completed ~~adjustments are processed when they have been verified and validated by CDCC~~amendments are processed when they have been verified and validated by CDCC pursuant to Section D-806 of the Rules. For the avoidance of doubt, final approval of all amendments and terminations remain subject to CDCC discretion, including rejection of Swap Amendments that do not satisfy the CFTC Requirement Validation. Further, no material economic value will be agreed or exchanged through the TRS Portal or otherwise on CDCC's platform.

Section 1 — Exercises, Tenders, Assignments and Deliveries

The following negotiable **Swap Amendments** submitted by Clearing Members are supported by CDCC:

1. **Spread:** A party to a Proprietary Swap Transaction can request a change to the Spread by communicating the new spread amount to CDCC. The request is subject to CDCC validation and must be approved by the opposite Clearing Member. The Spread can be amended monthly or quarterly, provided such day is a Swap Business Day, subject to the applicable cut-off time.
2. **Floating Rate Option:** A party to a Proprietary Swap Transaction can request a change to the Floating Rate Option by communicating the new Floating Rate Option to CDCC. The request is subject to CDCC validation and must be approved by the opposite Clearing Member. The Floating Rate Option can be amended on the Floating Rate Reset Date applicable to such Proprietary Swap Transaction, subject to the applicable cut-off time.
3. **TRS Equity Notional Amount upside:** A party to a Proprietary Swap Transaction can request an upside of the TRS Equity Notional Amount by communicating the new amount to CDCC. The request is subject to CDCC validation and must be approved by the opposite Clearing Member. TRS Equity Notional Amount changes can be entered on any Swap Business Day, subject to the applicable cut-off time.
4. **Early termination:** A Clearing Member party to a Proprietary Swap Transaction can request to early terminate a Proprietary Swap Transaction by making a request to modify the TRS Maturity Date. The request is subject to CDCC validation and must be approved by the opposite Clearing Member, unless a unilateral right to terminate exists for this Proprietary Swap Transaction. The request can be entered on any Swap Business Day, subject to the applicable cut-off time.
5. **Early termination & replicate:** A Clearing Member party to a Proprietary Swap Transaction can request to early terminate a Proprietary Swap Transaction by making a request to modify the TRS Maturity Date. The request is subject to CDCC validation and must be approved by the opposite Clearing Member, unless a unilateral right to terminate exists for this Proprietary Swap Transaction. The request can be entered on any Swap Business Day, subject to the applicable cut-off time. The replicate functionality allows both Clearing Members to terminate the existing Proprietary Swap Transactions and enter into new Proprietary Swap Transactions.

Corporate Actions

In case of a TRS Corporate Action event affecting a TRS Basket Share, Proprietary Swap Transactions and relevant TRS Basket Share(s) in the Eligible Baskets will be amended by the Corporation in accordance with Sections D-807 through D-814, as applicable, without consent or action by any other party.

REPORTING OF PROPRIETARY SWAP TRANSACTIONS

The Corporation shall report required trade information pertaining to (i) the Bilateral Swap Transaction and (ii) the two Proprietary Swap Transactions resulting from a Bilateral Swap Transaction to the CFTC-registered Swap Data Repository (“SDR”) or to the recognized or designated trade repository (“TR”), as applicable, in each case, where the relevant Bilateral Swap Transaction was originally reported pursuant to Part 45 of the CFTC’s Regulations or pursuant to applicable Canadian over-the-counter derivatives trade reporting rules. Clearing Members shall not make duplicative reports for the Bilateral Swap Transaction and the Proprietary Swap Transactions to an SDR or TR and hereby delegate the responsibility for such trade reporting of the Bilateral Swap Transaction to the Corporation.

Section 6 EXERCISES, TENDERS, ASSIGNMENTS, DELIVERIES AND MATURITIES

INTRODUCTION

OPTIONS

At the time of exercise of an Option, CDCC is responsible for issuing settlement records that will facilitate the delivery of the Underlying Interest to the Clearing Member who chooses to exercise that Option (in case of the exercise of a Call Option) or the payment of the relevant Exercise Price (in the case of the exercise of a Put Option). When a Clearing Member exercises an Option, CDCC assigns the delivery obligation to a Clearing Member who is the writer of Options in the same Series of Options in any one of its Client Account(s), Firm Account(s), or Multi-Purpose Account(s).

Assignment is made specifically to one of these accounts by CDCC. If assignment is made to a Client Account, the Clearing Member is responsible for allocating it to a specific client. If assignment is made to a Multi-Purpose Account, the Clearing Member must allocate it to the specific Multi-Purpose Account designated by CDCC.

Delivery of the Underlying Interest and payment of the Exercise Price is to be effected by Clearing Members through the settlement method instructed by CDCC.

FUTURES

All Futures which have not been closed out by the last trading day will be marked-to-market up to and including the close of the last trading day. In addition, the seller of a Future must submit a Tender Notice in the Delivery Month in accordance with applicable Contract Specifications.

When a seller of a Future submits a Tender Notice to CDCC, CDCC assigns it to a Clearing Member which is the buyer of a Future in the same Series of Futures in any one of its accounts. Assignment is made specifically to one of these accounts by CDCC. If assignment is made by CDCC to a Client Account, the Clearing Member is responsible for allocating it to a specific client. If assignment is made to a specific Multi-Purpose Account, the Clearing Member must allocate it to the specific Multi-Purpose Account designated by CDCC.

PROPRIETARY SWAP TRANSACTIONS

The final TRS Net Settlement Amount cash payment will be calculated on the TRS Maturity Date and paid on the TRS Termination Date in accordance with the settlement process described in Section 7 of this Manual.

EXPIRY PROCEDURES

Operations Notices are sent to Clearing Members setting forth the expiry procedures and it is the responsibility of Clearing Members to ensure that they have adequate processes in place to meet requirements and timelines prescribed by CDCC.

OPTIONS

For all information pertaining to the Option expiry procedures, Clearing Members should refer to the Operational Notices which are issued prior to the Expiration Date.

CDCC's Responsibilities on Expiry Friday

1. Review/modify Underlying Interest prices and notify the Clearing Members of any changes.
2. Notify Clearing Members (via e-mail) of any changes in the Production Schedule.
3. Notify Clearing Members (via e-mail) of the status of expiry processes.



EXERCISES, TENDERS, ASSIGNMENTS, DELIVERIES AND MATURITIES

4. Assist Clearing Members.

Clearing Members' Responsibilities on Expiry Friday

1. Ensure that the staff responsible for expiry is familiar with all expiry procedures and processes.
2. Validate entries using the Inquiry Screens or the relevant reports:
 - a. Verify that all Open Positions and adjustments match internal records, enter any new Transaction or Open Position adjustments accordingly.
 - b. Verify that the number of Options that will be automatically exercised on Expiration Date are correct.
 - c. For any changes, indicate on the Expiry Response Screen under the "Override" column the total number of Options for each Series of Options to be exercised.
 - d. Verify any ~~OutOfTheMoney~~Out-of-the-Money Options or At-the-Money Options to be exercised and enter the number of Options under the "Override" column.
3. Validate changes using the reports and/or the on-line access to CDCC Clearing Application (in accordance with timeframes set forth in Section 2 of this Operations Manual).
4. If required, make any allowed modifications (in accordance with timeframes set forth in Section 2 of this Operations Manual).

Daily Expirations (other than Expiry Friday)

When CDCC receives Underlying Interests' closing and opening prices from the relevant Exchange, the prices are specified on the relevant Expiry Report and are used to determine the In-the-Money Options and the Out-of-the-Money Options.

Clearing Members have until the Close of Business on any Business Day up to the Expiration Date to submit an Exercise Notice with respect to American Style Options to CDCC. European Style Options can only be exercised on their Expiration Date.

OTCI Options can expire on any Business Day.

Typically, exercise instructions must be entered online on the CDCC Clearing Application by Clearing Members. However, if unavailable, the following manual process can be used to submit Exercise Notices to CDCC:

1. The proper CDCC Exercise Notice form must be used.
2. The form must be signed by an Authorized Representative of the Clearing Member.
3. The properly delivered Exercise Notice will be accepted at any CDCC office.
4. The Exercise Notice must be properly delivered by five minutes before Close of Business.



EXERCISES, TENDERS, ASSIGNMENTS, DELIVERIES AND MATURITIES

5. The Clearing Member staff who deliver the Exercise Notice must be available until CDCC processes the exercise.

The CDCC Clearing Application will ensure that there are sufficient Option Open Positions of the relevant Series of Options in the relevant account of the Clearing Member for exercising the relevant Exercise Notice; if not, CDCC will reject the Exercise Notice. If there are sufficient Option Open Positions, the Clearing Member's Long Position is immediately reduced by the number of Option Open Positions exercised.

AN EXERCISE NOTICE CAN BE CANCELLED UNTIL CLOSE OF BUSINESS ON THE DAY IT IS SUBMITTED.



EXERCISES, TENDERS, ASSIGNMENTS, DELIVERIES AND MATURITIES

OPTIONS

Exercises

Delivery and payment on Exercised Positions are due on the Exercise Settlement Date.

Until Exercise Settlement Date, CDCC continues to require sufficient Margin to ensure that, if a Clearing Member defaults, any Exercise Notice submitted by it or assigned to it, as the case may be, will be completed.

Exercised Positions and Assigned Positions are reported to Clearing Members through relevant reports listed in Section 3 of this Operations Manual.

Assignments

After the Close of Business on any Business Day on which an Exercise Notice is submitted to CDCC, assignment of such Exercise Notice is made on a random selection basis, in which each account of a Member is treated separately. The reason for the separation is to ensure that each Clearing Member's Client Account(s), Firm Account(s), and Multi-Purpose Account(s) have the same probability of being assigned Exercise Notices. When a Clearing Member is assigned an Exercise Notice for a given account (e.g. the Firm Account) it may not allocate that assignment to another account (e.g. a Client Account).

An attempt will be made by CDCC to assign an Exercise Notice for more than 10 Options contracts in blocks not exceeding 10 contracts in each Series of Options.

Exercise Notices assigned to a Clearing Member's Client Account shall be allocated by the Clearing Member to any of its clients based on any method which is equitable and consistent with the rules of the relevant Exchange.

Automatic Exercise - Options and Options on Futures

To safeguard Clearing Members from possible errors, CDCC has instituted an Automatic Exercise procedure for expiring Series of Options. In simple terms, all ~~In-the-Money~~In-the-Money Options and Options on Futures over predetermined thresholds are automatically exercised by CDCC, unless Clearing Members instruct otherwise.

CDCC establishes predetermined thresholds and informs Clearing Members that every Option and Option on Future above that threshold will be automatically exercised. CDCC will not automatically exercise any At-the-Money Option. CDCC provides a method for Clearing Members to make changes to the Automatic Exercise function of the CDCC Clearing Application. This allows Clearing Members to either opt in or opt out of the Automatic Exercise with respect to the Options and Options on Future they hold. For example, a Member can choose not to exercise an Option that is above the predetermined threshold but to exercise another Option that is At-the-Money or ~~Out-of-the-Money~~Out-of-the-Money.

Exercised and Assigned Option Contracts

a. Exercised Positions

A Clearing Member who has exercised an Option has an obligation to either deliver the Underlying Interest (in the case of a Put Option) or pay the Exercise Price (in the case of a Call Option).

b. Assigned Positions



EXERCISES, TENDERS, ASSIGNMENTS, DELIVERIES AND MATURITIES

A Clearing Member who has been assigned an Exercise Notice has the obligation to pay the Exercise Price upon delivery of the Underlying Interest (in the case of a Put Option) or to deliver the Underlying Interest against payment (in the case of a Call Option).

EXERCISES, TENDERS, ASSIGNMENTS, DELIVERIES AND MATURITIES

FUTURES

Submission of Tender Notices

Tender Notices must be submitted before Close of Business during the relevant FIFO Period (which, subject to any contract adjustment by the relevant Exchange, shall be as follows):

CGB, CGF and CGZ	one Business Day preceding the first Business Day of the Delivery Month up to and including the last Business Day preceding the last Business Day of the Delivery Month.
LGB and MCX	before Close of Business on the last trading day.

All outstanding Short Positions in EMF, SXF, SXM, SCF, Sector Index Futures, Share Futures, and Options on Futures are automatically tendered on the last trading day, as per Contract Specifications, after Close of Business.

All outstanding Short Positions in COA and CRA are automatically tendered on the first Business Day following the last trading day, as per Contract Specifications, after Close of Business.

Assignment of Tender Notices

CDCC assigns all Tender Notices to open Long Positions on a random basis with the exception of the Government of Canada Bond Futures (CGB, CGF and CGZ). Assignments for the CGB, CGF and CGZ Futures are processed on a First-In-First-Out (FIFO) basis.

Delivery of the Underlying Interest and payment of the Settlement Price is effected by Clearing Members as instructed by CDCC.

FIRST-IN-FIRST-OUT (FIFO) ASSIGNMENT PROCESS

Description of Procedures

The Delivery Months for the CGB, CGF and CGZ Futures contracts are March, June, September and December as prescribed by the relevant Exchange. When a Member submits a Tender Notice with respect to a Short Position, a Long Position is assigned on a First-In-First-Out (FIFO) basis. CDCC sends out an Operational Notice prior to each relevant FIFO Period to remind Clearing Members of the procedures involved.

On the sixth Business Day prior to the first Business Day of the Delivery Month, each Clearing Member holding Long Positions in the relevant Series of Futures must declare on the CDCC Clearing Application its Long Positions in chronological order for each of its accounts. The entries must include the date the position was opened, the number of contracts and the account. When CDCC assigns a Tender Notice, the Long Position with the oldest date will be assigned first and the Long Position with the most recent date will be assigned last.

During the FIFO Period, Clearing Members must ensure that they update their declarations on a daily basis before Close of Business.

FIXED INCOME TRANSACTIONS

CDCC acts as central counterparty to all Fixed Income Transactions that are submitted by Clearing Members to CDCC for clearing. All Fixed Income Transactions shall be submitted for clearing to CDCC through the CDS trade matching facility routing matched trades to CDCC. As a result of these Transactions



EXERCISES, TENDERS, ASSIGNMENTS, DELIVERIES AND MATURITIES

being novated to CDCC, CDCC will be either the buyer or the seller of all settlement records that are sent to the Central Securities Depository.

Various transmissions of settlement records will be sent by CDCC to the Central Securities Depository on a daily basis.

Same Day Transactions gross settlement records

For Same Day Transactions, two settlement records consisting of settlement instructions (Gross Delivery Requirements and Gross Payment Against Delivery Requirements) will be sent gross to the Central Securities Depository to be settled on a real-time basis throughout the day immediately after each Same Day Transaction is novated to CDCC until the Submission Cut-Off Time specified in Section 2 of this Operations Manual.

Forward Settlement Transactions and Futures Contracts on an Acceptable Security net settlement records
For Forward Settlement Transactions and Futures Contracts on Acceptable Securities, settling on the next Business Day, two settlement records consisting of net settlement instructions (Net Delivery Requirements and Net Payment Against Delivery Requirements) will be sent to the Central Securities Depository on a net basis at the Netting Cut Off Time specified in Section 2 of this Operations Manual for settlement on the next Business Day.

Morning Net DVP settlement process

In respect of any Pending Payment Against Delivery Requirements at the Morning Netting Cycle Timeframe specified in Section 2 of this Operations Manual, CDCC shall send new settlement records (Morning Net Payment Against Delivery Requirements) to the Central Securities Depository reducing any Pending Payment Against Delivery Requirements of a Clearing Member in favour of CDCC by any Pending Payment Against Delivery Requirements of CDCC in favour of the same Clearing Member. The Clearing Member or its Settlement Agent shall have sufficient funds in its CDS Funds Account 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 specified in Section 2 of this Operations Manual.

Afternoon net DVP settlement process

In respect of any Pending Settlement Requirements at the Afternoon Netting Cycle Timeframe specified in Section 2 of this Operations Manual, CDCC shall send new settlement records (Afternoon Net DVP Settlement Requirements) to the Central Securities Depository reducing any Pending Delivery Requirements of a Clearing Member in favour of CDCC by any Pending Delivery Requirements of CDCC in favour of the same Clearing Member in respect of the same Acceptable Security, and/or reducing any Pending Payment Against Delivery Requirements of a Clearing Member in favour of CDCC by any Pending Payment Against Delivery Requirements of CDCC in favour of the same Clearing Member. The Clearing Member, or its Settlement Agent, shall have sufficient funds and sufficient Acceptable Securities in its CDS Funds Accounts and CDS Securities Accounts to settle its Afternoon Net DVP Settlement Requirements by the End of Day DVP Settlement Time specified in Section 2 of this Operations Manual.

Delivery

Securities delivery against payment is effected on a DVP basis through the Central Securities Depository.

In the event of a failed or partial delivery, CDCC will take appropriate action in accordance with this Manual and Section A-804 of the Rules.

CDCC shall determine the net settlement instructions by Clearing Member, CUSIP/ISIN and Settlement Date for all Transactions comprised in the Forward Settlement Transactions netting process (as specified



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in the above section entitled “Forward Settlement Transactions and Futures Contracts on an Acceptable Security net settlement records”) submitted to CDCC for clearing as of the Netting Cut Off Time. These settlement instructions shall be submitted to the relevant Central Securities Depository on a daily basis and in the form and settlement tranche acceptable to the Central Securities Depository for this purpose.

For Same Day Transactions, CDCC shall determine the gross settlement instructions (Gross Delivery Requirements and Gross Payment Against Delivery Requirements) by Clearing Member and the applicable CUSIP/ISIN, and submit such instructions to the relevant Central Securities Depository (in the form and settlement tranche acceptable to such Central Securities Depository) immediately after each Same Day Transaction is novated to CDCC for real-time settlement. Notwithstanding the foregoing, at the Morning Netting Cycle Timeframe, CDCC shall cancel previously issued Pending Payment Against Delivery Requirements and replace them by Morning Net Payment Against Delivery Requirements by Clearing Member (as specified in the above section entitled “Morning net DVP settlement process”).

In the event of a Failed Delivery for a particular settlement tranche to a Net Delivery Requirement or to an Afternoon Net DVP Settlement Requirement consisting of an obligation to deliver Acceptable Securities by the End of Day DVP Settlement Time specified in Section 2 of this Operations Manual, CDCC shall, on a best efforts basis, attempt to coordinate a partial delivery among those Receivers of Securities for that particular settlement tranche of the relevant Acceptable Security. In the event that no partial settlement is possible, the settlement tranche will be included in the Rolling Delivery Obligation of the failing Clearing Member and CDCC shall re-attempt settlement of the failed settlement tranche on the next Business Day. In the case of a Failed Delivery with respect to a Gross Delivery Requirement resulting from a Same-Day Transaction submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time to be settled by the End of Day DVP Settlement Time, CDCC 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.

In the event of a Failed Payment Against Delivery at the Morning Net DVP Settlement Timeframe specified in Section 2 of this Operations Manual, CDCC shall impose a fine on the Clearing Member corresponding to the charges which are levied on CDCC for the usage of the CDCC Daylight Credit Facility as a result of this Failed Payment Against Delivery. If the Clearing Member still does not have sufficient funds in its CDS Funds Account or that of its Settlement Agent at the Central Securities Depository to settle the relevant Morning Net Payment Against Delivery Requirement, or in the amount of the CDCC Daylight Credit Facility (whichever is less), by 11:00 a.m., the Clearing Member shall be deemed a Non-Conforming Member, in addition to any other remedies that CDCC may apply to such situation in accordance with Subsection A-806(1) of the Rules.

In the event of a Failed Payment Against Delivery at the End of Day DVP Settlement Time specified in Section 2 of this Operations Manual, the Clearing Member shall be deemed a Non-Conforming Member and shall be required to pay to CDCC any charges which are levied on CDCC for the overnight financing of this Failed Payment Against Delivery, in addition to any other remedies that CDCC may apply to such situation in accordance with Subsection A-806(2) of the Rules. CDCC will assist the Clearing Member to remedy the situation so that the Clearing Member can maintain its conforming status. As DVP is not available after the End of Day DVP Settlement Time at the Central Securities Depository (CSD), the Clearing Member must deliver the funds (or acceptable equivalent) outside of the CSD’s systems to CDCC prior to CDCC delivering the securities via the CSD.

Buy-In Process (excluding Fixed Income Variation Margin Buy-Ins)

For a Buy-In in respect of the Acceptable Security, the following applies. As set forth in Subsection A-804(3) of the Rules, CDCC may effect a Buy-In transaction on its own initiative or pursuant to a formal

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request by a Receiver of Securities affected by a Failed Delivery by purchasing the missing quantity of the relevant Acceptable Securities on the open market.

When initiated by a Receiver of Securities, the Buy-In process shall be as follows:

1. The Receiver of Securities who wants to initiate a Buy-In must send to CDCC the appropriate Buy-In Scan Form (which is accessible on CDCC's Secured Website) duly completed, with the following information:
 - a. Clearing Member's Name;
 - b. Clearing Member's Number;
 - c. The Acceptable Security (ISIN) involved;
 - d. The total quantity of the Failed Delivery;
 - e. The quantity requested in the Buy-In;
 - f. The Buy-In delivery date, which shall be the current Business Day + not less than one (1) complete Business Day.
2. The Buy-In Scanned Form must be submitted to CDCC in the prescribed format and signed by an Authorized Representative of the Clearing Member.
3. Upon receiving the duly completed Buy-In Scan Form from a Receiver of Securities, CDCC will work with the Provider(s) of Securities responsible for the Failed Delivery in order to validate if the delivery can be made within the number of Business Days specified in the Buy-In Scan Form (the "Buy-In Notice Delay").
4. At the expiry of the Buy-In Notice Delay, if the Provider(s) of Securities have not delivered the relevant Acceptable Securities, CDCC will initiate a cash trade on the open market.
5. Once delivery is received by CDCC on the cash trade, CDCC will deliver the Acceptable Securities to the Receiver of Securities that requested the Buy-In transaction.
6. All fees incurred to CDCC, including all costs with respect to the Buy-In transaction shall be charged to the Provider(s) of Securities responsible for the Failed Delivery. Such fees will be included on the Monthly Clearing Fees Invoice (MB01) of the second Business Day of each month as a separate pay figure, payable to CDCC on the 5th Business Day of each month through LVTS or any other payment method approved by CDCC.

SGC Repurchase Transactions

An SGC Repurchase Transaction is a bilateral repurchase agreement originally entered into between an SGC Clearing Member and the Trust which is submitted to CDCC for clearing during the SGC Repurchase Transaction Submission Period, in which the SGC Clearing Member agrees to sell SGC Securities in a particular SGC Securities Basket to the Trust at a Purchase Price to be paid by the Trust to the SGC Clearing Member, with a simultaneous agreement by the SGC Clearing Member to purchase the SGC Securities or Equivalent SGC Securities in a particular SGC Securities Basket from the Trust at the Repurchase Date and by the SGC Maturity Settlement Time, at a Repurchase Price to be paid by the SGC Clearing Member to the Trust. CDCC acts as central counterparty for all SGC Repurchase Transactions:



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CDCC accepts and novates the bilateral repurchase transaction and its terms and conditions are replaced with the SGC Repurchase Transaction terms and conditions set out in Rule D-7 of the CDCC Rules during the clearing process.

All defined terms used in the foregoing paragraph and not defined herein are defined in Rule D-7 of the CDCC Rules.

Section 2SECTION 7 SETTLEMENT

INTRODUCTION

CDCC provides the mechanism for a single cash settlement in respect of Core Products with respect to amounts which are not settled through a Central Securities Depository due by a Clearing Member to CDCC and by CDCC to such Clearing Member on a daily basis, as prescribed in Paragraph A-801(2)(a) of the Rules. Clearing Members are able to make a single payment to CDCC or receive a single payment from CDCC that represents the net value of their purchases, sales, gains and losses and, on a monthly basis, clearing fees. Additionally, the CDCS incorporates the amounts due from the Clearing Members for Margin (excluding for the (Fixed Income) Net Variation Margin Requirement) and the exercise/assignment Settlement Amounts of cash settled Transactions. Settlements in different currencies will be processed and settled separately.

Settlement of trading in a given currency is kept separate throughout the clearing procedure. All payments in the Canadian currency to and from CDCC are collected via an irrevocable payment processing system, known as the Large Value Transfer System (LVTS), or any other payment method approved by CDCC. Any US dollar payments are collected via a payment processing system known as Financial Electronic Data Interchange (FEDI). As described in the Risk Manual, the amount of Margin due by a Clearing Member on a given day is computed on the basis of that day's Open Positions shown on the relevant report.

All TRS Net Settlement Amounts will be processed separately from all other settlements described above. All Swap Clearing Members must have a US dollar account operational on any Swap Business Day to pay and receive all TRS Net Settlement Amounts and all deposits to the Swap Tranche of the Clearing Fund.

SETTLEMENT CALCULATION

The calculation of a Clearing Member's Net Daily Settlement amount is based on Transactions (including adjustments, exercises, tenders and assignments) and but not including Proprietary Swap Transactions) and Core Margin requirements and, on a monthly basis, clearing fees.

The Net Daily Settlement amount for each Clearing Member is determined in the following manner:

- (i) The amount of Core Margin required for the applicable Margin Fund Accounts are compared with Core Margin Deposits made by the Clearing Member for such accounts.
- (ii) The Premiums, Futures Settlement of Gains and Losses, cash settled exercise/assignment Settlement Amounts and cash adjustments for each account type (Client Account(s), Firm Account(s) and Multi-Purpose Account(s)) are netted to a single pay or collect figure.

All cash settlements to CDCC are to be made to CDCC's settlement account at the Bank of Canada, or to any other account of CDCC with a Schedule I bank, as designated by CDCC.

For each Swap Clearing Member, its TRS Net Settlement Amount is calculated in accordance with Subsection D-815(3) of the Rules. Payments of the TRS Net Settlement Amount will only occur on a Swap Business Day. All TRS Net Settlement Amounts payable to CDCC are to be paid in USD to CDCC's Designated Financial Institution account.

TRS Margin processing description can be found as set forth in Section 8 of this Operations Manual under Margin Processing.

FINES

SETTLEMENT

CDCC applies fines with regards to late payments to deter Clearing Members from being late in the performance of their payment obligations.

End of Day Settlement

Payments ~~for~~ or deliveries of end of day settlement in respect of Core Products (Futures mark-to-market, Premiums, Core Margin Shortfalls, etc.) must be received by 8:15 a.m. the next Business Day, for each Clearing Member (excluding LCMs) and 9:00 a.m. for each LCM.

Payments or deliveries for TRS Net Settlement Amounts and Required Swap Margin must be received by 9:00 a.m. the next Swap Business Day for each Clearing Member.

If a payment is late, CDCC will notify the Clearing Member that it is being fined. The fine structure is as follows:

Based on a rolling thirty days - if there has been a prior occurrence within the preceding thirty days, it is the second occurrence.

The fine schedule described below is subject to the Escalation Procedure applicable for operational issues detailed in Section 11 of this Manual.

For Clearing Members not in a Tri-Party Agreement

First occurrence of a late payment:

- if CDCC receives the payment in its Bank of Canada account by 7:55 a.m. the next Business Day, there will be no fine.
- if the payment is received by 8:30 a.m. the next Business Day, CDCC will impose a \$1,000 fine.
- if the payment is received by 8:59 a.m. the next Business Day, CDCC will impose a \$2,500 fine.
- if the payment is not received by 9:00 a.m. the next Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

On the second or more occurrences of a late payment:

- if CDCC receives the payment in its Bank of Canada account by 7:55 a.m. the next Business Day, CDCC will impose a \$1,000 fine
- if the payment is received after 7:55 a.m. but before 8:30 a.m. the next Business Day, CDCC will impose a \$5,000 fine.
- if the payment is received by after 8:30 a.m. but before 8:59 a.m. the next Business Day, CDCC will impose a \$10,000 fine.
- if the payment is not received by 9:00 a.m. the next Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

For Clearing Members (excluding LCMs) in a Tri-Party Agreement - Margin Shortfalls only

First occurrence of a late payment or delivery:

- if CDCC receives the payment in its Bank of Canada account or if CDCC has evidence that the securities have been received in the appropriate account by 7:55 a.m. the next Business Day, there will be no fine.
- if the payment or delivery is received by 8:30 a.m. the next Business Day, CDCC will impose a \$1,000 fine.
- if the payment or delivery is received by 8:59 a.m. the next Business Day, CDCC will impose a \$2,500 fine.
- if the payment or delivery is not received by 9:00 a.m. the next Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

On the second or more occurrences of a late payment or delivery:

- if CDCC receives the payment in its Bank of Canada account or if CDCC has evidence that the securities have been received in the appropriate account by 7:55 a.m. the next Business Day, CDCC will impose a \$1,000 fine
- if the payment or delivery is received after 7:55 a.m. but before 8:30 a.m. the next Business Day, CDCC will impose a \$5,000 fine.
- if the payment or delivery is received by after 8:30 a.m. but before 8:59 a.m. the next Business Day, CDCC will impose a \$10,000 fine.
- if the payment or delivery is not received by 9:00 a.m. the next Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

For LCMs - Margin Shortfalls only

First occurrence of a late payment or delivery:

- if CDCC receives the payment in CDCC's Bank of Canada account designated for such Limited Clearing Member or if CDCC has evidence that the securities have been received in the appropriate account by 9:10 a.m. the next Business Day, there will be no fine.
- if the payment or delivery is received by 9:45 a.m. the next Business Day, CDCC will impose a \$1,000 fine.
- if the payment or delivery is received by 10:14 a.m. the next Business Day, CDCC will impose a \$2,500 fine.
- if the payment or delivery is not received by 10:15 a.m. the next Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

On the second or more occurrences of a late payment or delivery:

SETTLEMENT

- if CDCC receives the payment in CDCC's Bank of Canada account designated for such Limited Clearing Member or if CDCC has evidence that the securities have been received in the appropriate account by 9:10 a.m. the next Business Day, CDCC will impose a \$1,000 fine
- if the payment or delivery is received after 9:10 a.m. but before 9:45 a.m. the next Business Day, CDCC will impose a \$5,000 fine.
- if the payment or delivery is received by after 9:45 a.m. but before 10:14 a.m. the next Business Day, CDCC will impose a \$10,000 fine.
- if the payment or delivery is not received by 10:15 a.m. the next Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

For Clearing Members - late payment of TRS Net Settlement Amount

First occurrence of a late payment:

- if CDCC receives the payment in its the designated account by 9:15 a.m. the next Swap Business Day, there will be no fine.
- if the payment is received by 9:30 a.m. the next Swap Business Day, CDCC will impose a USD \$1,000 fine.
- if the payment is not received by 9:30 a.m. the next Swap Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

On the second or more occurrences of a late payment:

- if CDCC receives the payment in the designated account by 9:15 a.m. the next Swap Business Day, CDCC will impose a USD \$1,000 fine
- if the payment is received by 9:30 a.m. the next Swap Business Day, CDCC will impose a USD \$5,000 fine.
- If the payment is not received by 9:30 a.m. the next Swap Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

SGC Securities Adjustment Threshold

The Corporation may determine, from time to time and for the purpose of Section D-707 of the Rules, the amount of a minimum threshold to be applied to SGC Securities Adjustment once calculated by the Corporation.

If the SGC Securities Adjustment calculated pursuant to Section D-707 of the Rules is equal to or exceeds the threshold, the Corporation may require the SGC Clearing Member to make available SGC Securities for the entire amount of the SGC Securities Adjustment (disregarding the threshold) within the given timeline.

If the SGC Clearing Member does not make available sufficient SGC Securities for sale in the entire amount of the SGC Securities Adjustment within the given timeline, CDCC may impose the following fines:

SETTLEMENT

- if the sale of the intra-day SGC Securities Adjustment is made more than 2 hours after but less than 2 hours and 15 minutes from notification, CDCC may impose a \$500 fine;
- if the sale of the intra-day SGC Securities Adjustment is made more than 2 hours and 15 minutes but less than 2 hours and 30 minutes from notification, CDCC may impose a \$1,000 fine.
- If at the end of day, an SGC Securities Adjustment is made more than 15 minutes, but less than 30 minutes after the SGC Securities Adjustment Settlement Time, CDCC may impose a \$500 fine;
- If at the end of day, an SGC Securities Adjustment is made more than 30 minutes after the SGC Securities Adjustment Settlement Time, CDCC may impose a ~~\$1,000~~\$1,000 fine.

If the SGC Clearing Member does not make available sufficient SGC Securities for sale in the entire amount of SGC Securities Adjustment, the Corporation may take any action or measure provided in Section D-707(4).

MARGIN PROCESSING - SUPPLEMENTAL LIQUIDITY FUND

Section 3 SECTION 8 MARGIN PROCESSING - SUPPLEMENTAL LIQUIDITY FUND

MARGIN FUND ACCOUNTS

Margin Fund Accounts are the CDCS records provided to each Clearing Member containing all Margin deposited or delivered by such Clearing Member to CDCC, in respect of such Clearing ~~Member's~~ Member's Core Base Initial Margin (or Adjusted Core Base Initial Margin, as the case may be), TRS Base Initial Margin, Additional Margin for Market Liquidity Risk, Additional Margin for Specific Wrong-Way Risk, Additional Margin for Mismatched Settlement Risk, Additional Margin for Intra-Day Variation Margin Risk, Additional Margin for Unpaid Option Premium Exposure Risk, Additional Margin for Banking Holiday Risk, Additional Margin for Variation Margin Delivery Risk, Additional Margin for Capital ~~Margin~~ Risk, Additional Margin for Uncovered Risk of Limited Clearing Members, Additional Margin for Intra-Day GCM Risk, Additional Margin for Undeclared GCM Positions Risk, Additional Margin for Dividend Payment Risk, Additional Margin for Stress Test Risk, Variation Margin for Options, and Variation Margin for Unsettled Items, in accordance with the Risk Manual and as set forth in Section 8 hereof.

In addition to the foregoing, an amount may be requested from a Clearing Member for the protection of the Corporation, Clearing Members or the investing public, in accordance with Section A-702 of the Rules.

Each Clearing Member must record in its Margin Fund Accounts any deposit or Asset delivered made to cover the shortfalls resulting from the requirements. Deposits or Assets delivered must be in the form of Eligible Collateral, as specified in the Risk Manual, in an amount sufficient, taking into account the market value and applicable haircuts as specified in Section A-707 of the Rules.

Excess

Any surplus amount from the Margin Fund Accounts (Firm, GCM Regime and Non-GCM Regime). Excess amounts from the GCM Regime Margin Account are determined on an end-of-day basis after the GCM Declaration File - end-of-day cut-off.

Deficit

Any shortfall amount from the Margin Fund Accounts. Deficits from the Clients' Margin Fund Accounts (GCM Regime and Non-GCM Regime) can be covered by any Firm Excess. Excesses from the GCM Margin Account cannot cover deficits of the Non-GCM Margin Account (and vice-versa) nor deficits from the Firm Margin Account.

TRS Margin Fund Accounts are subject to specific collateral eligibility hence any excesses are not eligible to cover deficits from other Margin Fund Accounts.

Withdrawals

Clearing Members may request to withdraw Excess, subject to applicable deadlines, as set forth in Section 2 of this Operations Manual. CDCC will respond within the specified time set forth in Section 2 and, on a best effort basis, approve the withdrawal in CDCC Clearing Application.

Substitutions

A Clearing Member may request to substitute a specific Asset previously deposited or delivered in the Margin Fund Accounts to the Corporation. The Clearing Member must first pledge ~~deposit~~ equivalent securities/cash and withdraw the existing securities/cash subject to substitution. The value of the equivalent securities/cash so deposited or delivered must be equal to or in excess of the Assets being withdrawn, subject to applicable deadlines, as set forth in Section 2 of this Operations Manual.

CDCC verifies the validity of each depositAsset delivered or deposited made by Clearing Members and ensures that withdrawals of existing Assets subject to substitution do not create deficits in the Clearing Member's Margin Fund Accounts. CDCC will respond within the specified time set forth in Section 2 and, on a best effort basis, approve the substitution in CDCC Clearing Application.

SETTLEMENT

Cash deposit

Cash deposited in the Margin Fund Accounts must be sent to the relevant CDCC bank account--: _

- For Core Products: CDCC's settlement account at the Bank of Canada, or to any other account of CDCC with a Schedule I bank, as designated by CDCC.
- For Proprietary Swap Transactions: all TRS Net Settlement Amounts payable to CDCC are to be made to CDCC's Designated Financial Institution.

After performing all the validation processes, CDCC confirms within the CDCC Clearing Application the Clearing Member's deposits and/or withdrawals.

Deposits, withdrawals and changes thereto will be reflected on the immediately following Business Day's Deposits and Withdrawals Report (MA01). In accordance with the Rules, any discrepancies that the Clearing Member notices against its own records should be reported to CDCC immediately.

Pledging (Securities / CDS)

Securities pledges in the Margin Fund Accounts in respect of Core Margin must be performed through CDSX in CDCC's account. The entries on the pledging screen of the CDCC Clearing Application are matched by CDCC to corresponding entries on the reporting system of the relevant Central Securities Depository.

In some cases, an exchange of document at a CDCC Office by the Clearing Member (accompanied by a screen print of the entry bearing the signature of an Authorized Representative of the Clearing Member) may be accepted by CDCC as constituting a physical deposit or withdrawal.

After performing all the validation processes, CDCC confirms within the CDCC Clearing Application the Clearing Member's deposits and/or withdrawals.

Deposits, withdrawals and changes thereto will be reflected on the immediately following Business Day's Deposits and Withdrawals Report (MA01). In accordance with the Rules, any discrepancies that the Clearing Member notices against its own records should be reported to CDCC immediately.

Pledging (Securities / Tri Party - Securities Account with an Approved Custodian)- Excluding Proprietary Swap Transactions

Subject to certain conditions, the Corporation may allow Clearing Members to pledge non-cash collateral for the purpose of meeting their Core Margin requirements pursuant to Rule A-7 (excluding (Fixed Income) Net Variation Margin Requirements and any other Core Margin which can otherwise only be cash settled) to a securities account maintained at a third party securities intermediary. The securities intermediary must enter into an Account Control Agreement with respect to the securities account and be an Approved Custodian, each as defined in the Rules.

Use of the Securities Account in respect of Core Margin

1. The securities account shall only be maintained by a securities intermediary which is an Approved Custodian, as defined in the Rules.
2. Any securities held in the securities account maintained by the Approved Custodian, in the name of the Clearing Member, shall be subject to an Account Control Agreement.
3. The Account Control Agreement is a standard agreement that meets certain requirements, as prescribed in the Rules.

SETTLEMENT

4. The securities account may not be used for (Fixed Income) Net Variation Margin Requirements or for settlement purposes.
5. The respective rights and obligations of the Clearing Member and CDCC with respect to the securities collateral held in the securities account are subject to the Rules, including:
 - a. All deposits, withdrawals and substitutions in the securities account are subject to the timeline described in Section 2 of this Manual and to the collateral policy described in Section 3 (Eligible Collateral) of the Risk Manual;
 - b. All deposits, withdrawals and substitutions made in the securities account shall also be entered in CDCC Clearing Application in accordance with the timeline described in Section 2 of this Manual and to the collateral policy described in Section 3 (Eligible Collateral) of the Risk Manual;
 - c. Any withdrawal of securities held in the securities account is subject to CDCC's approval. The withdrawal must be entered in CDCC Clearing Application by the Clearing Member. A withdrawal authorization form must be signed by an Authorized Representative of the Clearing Member and must be transmitted to CDCC. CDCC will then, within the specified time to respond to a withdrawal request specified in Section 2, sign and transmit the withdrawal authorization form to the Approved Custodian to proceed with the withdrawal;
 - d. Any substitution is subject to the deposit by the Clearing Member of the replacement securities in the securities account before the withdrawal of the replaced securities. Both the deposit and the withdrawal shall also be entered in CDCC Clearing Application by the Clearing Member. A substitution authorization form must be signed by an Authorized Representative of the Clearing Member and must be transmitted to CDCC. CDCC will then, within the specified time to respond to a substitution request specified in Section 2, sign and transmit the substitution authorization form to the Approved Custodian to proceed with both the deposit and the withdrawal.

Pledging Securities for Proprietary Swap Transaction activities through a TRS Designated Depository or TRS Designated Custodian

The Clearing Members may meet their TRS Margin requirements by pledging securities meeting CDCC's collateral eligibility rules for Proprietary Swap Transactions into CDCC's account at a TRS Designated Depository or TRS Designated Custodian. Transfers, withdrawals and changes thereto will be reflected on the Swap Business Day's deposits and withdrawals report (MA01). In accordance with the Rules, any discrepancies that the Clearing Member notices against its own records should be reported to CDCC immediately.

Pledging (Securities / Pledge Account with a TRS Designated Depository)

A pledge entry by, or on behalf of a Clearing Member into CDCC'S pledge account at the TRS Designated Depository is automatically reflected in the CDCC Clearing Application. After performing its validation processes, CDCC confirms the Asset's eligibility and value into the CDCC Clearing Application.

Pledging (Securities / Securities Account with a TRS Designated Custodian)

SETTLEMENT

A pledge entry by Clearing Member into a securities account at the TRS Designated Custodian must be manually entered in the CDCC Clearing Application by the Clearing Member. CDCC will validate the pledge entry after confirming the Asset's eligibility in the TRS Designated Custodian account and then reflect the pledge Asset and value into the CDCC Clearing Application. The TRS Designated Custodian account may only be used for Eligible Collateral issued by the U.S. Government.

Intra-Day Margin Calls

CDCC encourages its Clearing Members to cover Intra-Day Margin Calls with collateral other than cash.

The fine schedule described below is subject to the Escalation Procedure applicable for operational issues detailed in Section 11 of this Manual.

Clearing Members (excluding LCMs) have one (1) hour from notification to cover an Intra-Day Margin Call. If the payment or delivery is late, the following fines shall apply:

- if the payment or delivery is received more than 1 hour after but less than 1 hour and 15 minutes from notification, CDCC will impose a \$500 fine.
- if the payment or delivery is received more than 1 hour and 15 minutes but less than 1 hour and 30 minutes from notification, CDCC will impose a \$1,000 fine.
- if the payment or delivery is not received by 1 hour and 30 minutes from notification, CDCC will deem the Clearing Member (excluding LCMs) a Non-Conforming Member.

LCMs have two (2) hours from notification or until such Settlement Time as may be provided in Section 2 to cover an Intra-Day Margin Call. If the payment or delivery is late, the following fines shall apply:

- if the payment or delivery is received more than 2 hours after but less than 2 hours and 15 minutes from notification, CDCC will impose a \$500 fine.
- if the payment or delivery is received more than 2 hours and 15 minutes but less than 2 hours and 30 minutes from notification, CDCC will impose a \$1,000 fine.
- if the payment or delivery is not received within 2 hours and 30 minutes from notification, CDCC will deem the LCM a Non-Conforming Member

Overnight Margin Calls

CDCC offers its Clearing Members two (2) ways to cover Overnight Margin Calls:

- Eligible currencies deposited through an approved bank;
- Securities pledged through CDS (see CDS document "PLEDGE AND SETTLEMENT PROCEDURES" Section 1.8).

Clearing Members (excluding LCMs) have two hours from notification to cover an Overnight Margin Call. If the payment or delivery is late or insufficient, the Clearing Member may be deemed a Restricted Clearing Member by CDCC and the following fines shall apply:

SETTLEMENT

- if the payment or delivery is received more than 2 hours after but less than 2 hours and 15 minutes from notification, CDCC will impose a \$500 fine.
- if the payment or delivery is received more than 2 hours and 15 minutes but less than 2 hours and 30 minutes from notification, CDCC will impose a \$1,000 fine.

Overnight Margin Calls do not apply to Proprietary Swap Transactions.

Intra-Day Swap Margin Calls

CDCC encourages its Clearing Members to cover their Intra-Day Swap Margin Call with acceptable collateral other than cash.

The fine schedule described below is subject to the Escalation Procedure applicable for operational issues detailed in Section 11 of this Manual.

Clearing Members have one (1) hour from notification to cover an Intra-Day Swap Margin Call. If the payment or delivery is late, the following fines shall apply:

- if the payment or delivery is received more than 1 hour after but less than 1 hour and 15 minutes from notification, CDCC will impose a USD \$500 fine.
- if the payment or delivery is received more than 1 hour and 15 minutes but less than 1 hour and 30 minutes from notification, CDCC will impose a USD \$1,000 fine.
- if the payment or delivery is not received by 1 hour and 30 minutes from notification, CDCC will deem the Clearing Member a Non-Conforming Member.

End of day margin calls for Proprietary Swap Transactions

CDCC encourages its Clearing Members to cover end of day margin calls for Proprietary Swap Transactions with acceptable collateral other than cash.

The fine schedule described below is subject to the Escalation Procedure applicable for operational issues detailed in Section 11 of this Manual.

Clearing Members have until 9:00 a.m. the next Swap Business Day to cover an end of day margin call related to Proprietary Swap Transactions. If the payment or delivery is late, the following fines shall apply:

- if the payment or delivery is received by 9:15 a.m. the next Swap Business Day, CDCC will impose a USD \$500 fine.
- if the payment or delivery is received by 9:30 a.m. the next Swap Business Day, CDCC will impose a USD \$1,000 fine.
- if the payment or delivery is not received by 9:30 a.m. the next Swap Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

(FIXED INCOME) VARIATION MARGIN ACCOUNT

SETTLEMENT

The (Fixed Income) Variation Margin Account is the CDCS record provided to each Clearing Member listing all Core Margin Deposits made by such Clearing Member to CDCC for (Fixed Income) Net Variation Margin Requirement purposes only, in accordance with Section D-607 of the Rules, or otherwise as set forth in Section 8 hereof.

(Fixed Income) Net Variation Margin Requirement Settlement

In order to meet a (Fixed Income) Net Variation Margin Requirement, Clearing Members are required to pledge, through CDSX, to CDCC's (Fixed Income) Variation Margin Account, Core Margin Deposits in the form of Eligible Collateral, as specified in the Risk Manual, in an amount sufficient, taking into account the market value and applicable haircuts as specified in Section A-707 of the Rules, to cover any positive variation of the (Fixed Income) Net Variation Margin Requirement owed by a Clearing Member to CDCC.

While the Eligible Collateral must be delivered and pledged to CDCC through CDSX, each Clearing Member must in parallel record in its (Fixed Income) Variation Margin Account such pledge, or any pledge release, to match the entries. The (Fixed Income) Variation Margin Account is solely used to record the pledges or pledge releases, as the case may be, of Core Margin Deposits for (Fixed Income) Net Variation Margin Requirement purposes.

Delivery of the (Fixed Income) Net Variation Margin Requirement

On any given Business Day, each Clearing Member must deliver to the Corporation in CDCC's account at CDS, Eligible Collateral for (Fixed Income) Net Variation Margin Requirement purposes, taking into consideration any shortfall resulting from the variation of the (Fixed Income) Net Variation Margin Requirement, as compared to the (Fixed Income) Net Variation Margin Requirement calculated on the previous Business Day, and the fluctuation of the market value of the Eligible Collateral previously pledged by such Clearing Member to meet its (Fixed Income) Net Variation Margin Requirement.

Upon accepting Eligible Collateral that has been pledged to it through CDSX, CDCC may re-pledge and deliver the Eligible Collateral to a receiving Clearing Member, subject to CDCC's first ranking pledge, and the receiving Clearing Member shall be entitled to re-pledge or re-hypothecate the Eligible Collateral delivered to it.

Each Clearing Member is also required to return to the Corporation the same CUSIP/ISIN that had been allocated and pledged to it by the Corporation as part of the (Fixed Income) Net Variation Margin Requirement delivery, in an amount sufficient to meet the (Fixed Income) Net Variation Margin Requirement shortfalls as indicated on the MS10 report. Clearing Members must return the same CUSIP/ISIN in accordance with the (Fixed Income) Net Variation Margin Requirement Settlement Times. If a Clearing Member fails to return to the Corporation the specific CUSIP/ISIN securities listed on the report but returns equivalent securities instead (a "Fixed Income Variation Margin Delivery Failure"), the Clearing Member will be subject to fines as described below.

Distribution of the (Fixed Income) Net Variation Margin Requirement Collateral

The Corporation will transfer to each Clearing Member being owed a net amount resulting from a change in such Clearing Member's (Fixed Income) Net Variation Margin Requirement or from the fluctuation of the market value of the Eligible Collateral previously pledged by such Clearing Member to meet its (Fixed Income) Net Variation Margin Requirement, the Variation Margin securities received by the Corporation as part of the (Fixed Income) Net Variation

SETTLEMENT

Margin Requirement. The Corporation will in priority return the same CUSIP/ISIN previously pledged to the Corporation by such Clearing Member, subject to the specific procedures described below in the event of a Fixed Income Variation Margin Delivery Failure or of a substitution request.

Substitution of Pledged Securities Collateral for the (Fixed Income) Variation Margin Account

1. (Fixed Income) Variation Margin Account Collateral substitution request:

A Clearing Member may request to substitute a specific CUSIP/ISIN previously pledged in the (Fixed Income) Variation Margin Account to the Corporation. The request for substitution must be received by the Corporation before 11:00 a.m. for same day settlement. Clearing Member must first pledge equivalent securities and withdraw the existing securities subject to substitution. The value of the equivalent securities so pledged must be equal to or in excess of the securities being withdrawn. Substitution of a specific CUSIP/ISIN requested for same day settlement will be completed by 3:00 p.m. by the Corporation, subject to the Buy-In process below.

2. ~~2.~~ (Fixed Income) Variation Margin Account Securities Collateral substitution notice:

The Corporation will inform by 12:00 p.m. (noon) any Clearing Member subject to a substitution request (the "Holder of securities") for a same day settlement. The Holder of securities will have until 3.00 p.m. to deliver the securities to CDCC's (Fixed Income) Variation Margin Account. Failure to deliver by the Holder of securities by the cut-off time will be considered a Fixed Income Variation Margin Delivery Failure and will result in fines being applied to the Holder of securities as described below.

FIXED INCOME VARIATION MARGIN DELIVERY FAILURE

Fines

CDCC will apply fines for failure to return distributed securities.

CDCC will apply fines for failure to return securities subject to a substitution notice, by the appropriate deadline.

For each day between the day of the original return obligation and the delivery date (the ~~"Fail Period"~~) a fine will be applied ~~(("Fail fees").~~). The Fail fee is based on a rate equal to CORRA, applied daily. CDCC shall immediately notify the Clearing Member to which a fine is imposed.

Throughout the Fail Period, CDCC will require to receive Eligible Collateral of a value equivalent to the value of the unreturned securities and CDCC will deliver such replacement securities to the receiving Clearing Member (the ~~"Replacement Securities"~~). At the end of the Fail Period, the Replacement Securities will be returned from the receiving Clearing Member to the delivering Clearing Member.

The fines described above are subject to the Escalation Procedure applicable for operational issues detailed in Section 11 of this Manual.

Collection of Fines

CDCC will collect any applicable fines with the month-end clearing fee billing.

Fixed Income Variation Margin Buy-In process for Fixed Income Variation Margin Delivery Failure

The Receiver of securities affected by a Fixed Income Variation Margin Delivery Failure may request that the Corporation execute a Buy-In on the day following the market standard settlement (T+2 / T+3, where T is the day of the original date of the request).

SETTLEMENT

Same day settlement will be executed by CDCC on a best efforts basis. In the event of a failure to deliver by the counterparty to the Buy-In transaction on the same day, CDCC will execute the Buy-In transaction the following day without liability.

The Corporation shall only execute a Buy-In transaction pursuant to a formal request by a Receiver of securities affected by a Failed Delivery, by purchasing on the open market the collateral of the specified quantity and CUSIP/ISIN.

When initiated by a Receiver of securities, the Buy-In process shall be as follows:

1. The Receiver of securities who wants to initiate a Buy-In must send to the Corporation the appropriate Buy-In Scanned Form (which is accessible on CDCC's Secured Website) duly completed with the following information:
 - a. Clearing Member's Name;
 - b. Clearing Member's Number
 - c. The specific securities (Eligible Collateral) (ISIN) involved;
 - d. The total quantity of the Failed Delivery;
 - e. The quantity requested in the Buy-In;
 - f. The Buy-In delivery date, which shall be the current Business Day + no less than two (2) complete Business Days.

The Buy-In Scanned Form must be submitted to CDCC in the prescribed format and must be signed by an Authorized Representative of the Clearing Member before 10:00 a.m.

2. Upon receiving the duly completed Buy-In Scanned Form from a Receiver of securities, the Corporation will work with the Holder(s) of securities responsible for the Failed Delivery in order to validate if the delivery can be made within the number of Business Days specified in the Buy-In Scan Form (the "Buy-In Notice Delay").
3. At the expiry of the Buy-In Notice Delay, if the Provider(s) of securities has not delivered the relevant securities, the Corporation will initiate a cash trade on the open market.
4. Upon receipt of the securities, CDCC will deliver the requested securities to the Receiver that initiated the Buy-In transaction.
5. All fees incurred by the Corporation, including all costs with respect to the Buy-In transaction shall be charged to the Provider(s) of securities responsible for the Failed Delivery. Such fees will be included on the Monthly Clearing Fees Details Report (MB01) produced on the second Business Day of each month as a separate pay figure, payable to the Corporation on the fifth Business Day of each month through LVTS or any other payment method approved by the Corporation.

CLEARING FUND

Each Clearing Member (excluding LCMs) approved to clear Exchange Transactions and/or OTCI Transactions ~~and/or Fixed Income Transactions~~ shall maintain a deposit in the Core Tranche of the Clearing Fund and each Swap Clearing Member shall maintain a deposit in the Swap Tranche of the

SETTLEMENT

Clearing Fund of the amounts from time to time required by CDCC in accordance with Rule A-6. The Clearing Fund has been established to protect CDCC and its Clearing Members (including their Affiliate(s)) from potential defaults and other market events ~~and~~. The Core Tranche of the Clearing Fund shall be used for the purposes set out in Section A-609 and Subsection A-701(2) of the CDCC Rules. The Swap Tranche of the Clearing Fund shall be used for the purposes set out in Section A-609 and Subsection A-7A01(2) of the CDCC Rules.

Each Clearing Member's (excluding LCMs) contribution includes a required Base Deposit and a Variable Deposit. The details of the Base and Variable Deposits are set forth in Rule A-6.

Clearing Fund Statement Report

On the first Business Day of each calendar month, CDCC shall issue to each Clearing Member (excluding LCMs) a Clearing Fund Statement that shall list the current amount of such Clearing Member's deposits to the Core Tranche of the Clearing Fund and the Swap Tranche of the Clearing Fund and the amount of deposit, which is based on the monthly calculation of the Variable Deposit, required of such Clearing Member in respect of each of the Core Tranche of the Clearing Fund and the Swap Tranche of the Clearing Fund, as applicable. CDCC will also issue a Clearing Fund statement (MA71) intra-monthly if an increase to the Variable Deposit in respect of either the Core Tranche of the Clearing Fund or the Swap Tranche of the Clearing Fund is necessary. Any deficit between the amounts held on deposit and the deposit required to be made by a Clearing Member must be satisfied on the next Business Day or Swap Business Day, as applicable, (T+1) before 10:00 a.m. (no same-day deposit).

Deposits

Deposits to the Clearing Fund shall be in the form of Cash. Deposits to the Clearing Fund are made and valued in the same manner and are subject to the same deadlines as for ~~Margin~~ deposits of Core Margin or TRS Margin, as applicable, as set forth in Section 2 of this Operations Manual.

Withdrawals

Clearing Members (excluding LCMs) may request to withdraw any surplus amount from the Clearing Fund, subject to applicable deadlines, as set forth in Section 2 of this Operations Manual.

Pledges

Pledges of Cash must be performed in accordance with Rule A-6.

SUPPLEMENTAL LIQUIDITY FUND

Each Clearing Member (excluding LCMs) approved to clear Transactions shall maintain Supplemental Liquidity Contributions in the Core Tranche of the Supplemental Liquidity Fund in respect of Core Products and shall maintain Supplemental Liquidity Contributions in the Swap Tranche of the Supplemental Liquidity Fund in respect of Proprietary Swap Transactions, in each case of the amounts from time to time required by CDCC in accordance with Rule A-6A of the CDCC RuleRules and the Risk Manual. The Supplemental Liquidity Fund has been established to protect CDCC from potential liquidity obligations or exposure that CDCC may suffer and shall be used for the purposes set out in Rule A-6A of the CDCC Rules.

Supplemental Liquidity Fund Statement

On the first Business Day of each calendar month, CDCC shall issue to each Clearing Member (excluding LCMs) a Supplemental Liquidity Fund Statement that shall list the current amount of such Clearing Member's Supplemental Liquidity Contributions to each of the Core Tranche of the Supplemental Liquidity Fund and the Swap Tranche of the Supplemental Liquidity Fund and the amount of Supplemental Liquidity Contributions required of such Clearing Member in respect of each. CDCC will also issue a Supplemental Liquidity Fund Statement (MA80) intra-monthly if an increase to the Supplemental Liquidity Contributions is necessary. Any deficit between the Supplemental Liquidity Contributions held in the Supplemental Liquidity Fund and the Supplemental Liquidity Contributions required to be made by a Clearing Member must be satisfied on the next Business Day or Swap Business Day, as applicable, (T+1) before 10:00 a.m. (no same-day deposit).

Supplemental Liquidity Contributions

Supplemental Liquidity Contributions to the Supplemental Liquidity Fund shall be in the form of Cash. Supplemental Liquidity Contributions to the Supplemental Liquidity Fund are valued in the manner set forth in the Risk Manual.

Withdrawals

Clearing Members (excluding LCMs) may request to withdraw any surplus amount from the Supplemental Liquidity Fund.

Pledges

Pledges of Cash must be performed in accordance with Rule A-6A.-



| of the CDCC Rules.

Section 4 SECTION 9 CLEARING FEES

Clearing services fees

Clearing fees are charged to both Clearing Members submitting a Transaction for clearing to CDCC and are based on the number of contracts involved, or the gross notional of the Proprietary Swap Transactions. There is a minimum monthly clearing fee charge with respect to certain product types (Futures, Options and OTCI (other than Fixed Income Transactions))) and Proprietary Swap Transactions. Once a Clearing Member, otherwise eligible to do so in accordance with the Rules, starts using a particular clearing service by submitting a first Transaction of such product type, the applicable minimum monthly clearing fee shall be charged to the Clearing Member thereafter whether the Clearing Member actually uses the services or not during any given month, until the Clearing Member duly notifies CDCC in writing that it wishes to withdraw from the clearing services for that product type, effective sixty (60) days after CDCC receives such notice, provided there is no outstanding Transaction of such product type standing to an account of the Clearing Member at such time. Clearing Members should refer to the CDCC website www.cdcc.ca ~~www.cdcc.ca~~ for a complete list of applicable fees.

Clearing fees are collected as a separate pay figure and are payable to CDCC on the morning of the 5th Business Day or Swap Business Day, as applicable, of each month through LVTS or any other payment method approved by CDCC. The MB01 Monthly Clearing Fees Invoice, MB02 Monthly Clearing Fees Details Reports and MB03 Monthly Fixed Income Clearing Fees Invoice are generated on every 2nd Business Day of each month and are available to Clearing Members on the morning of the 3rd Business Day of each month.

Fees for additional services

There are a number of discretionary services available to Clearing Members, in addition to the normal clearing services. These are published periodically as an Operational Notice to Members and can be viewed on the Secured Website. CDCC issues a statement on a monthly basis for these services. The fees are collected as per the date on the statement through LVTS or any other payment method approved by CDCC.

Fees for cost incurred at CDS (or other Central Securities Depository)

Any settlement cost incurred by CDCC within CDSX (or the settlement platform of another Central Securities Depository) will be charged to the Clearing Member with which CDCC is settling. Such cost will be included on the Monthly Clearing Fees Details Report (MB01) of the second Business Day of each month as a separate pay figure, payable to CDCC on the 5th Business Day of each month through LVTS or any other payment method approved by CDCC.

Clearing Members shall designate up to three (3) individuals within their firm who will be responsible for handling the Clearing Member's User Profiles ("Security Officers"). The designation of Securities Officers is done by filing with CDCC a CDCC Clearing Application - Security Officer Identification form, which form shall be renewed on an annual basis.

Once duly designated, a Security Officer shall submit a CDCC Clearing User Profile Request form to request that CDCC add or delete a User Profile (this form is accessible on CDCC's Secured Website).



~~Section 5~~ SECTION 10 SECURITY OFFICER

The Security Officer must complete this form and have it signed by an Authorized Representative of the Clearing Member. When the form is complete, the Clearing Member can either scan the form and send it to the Corporate Operations group e-mail address: cdcc-ops@tmx.com, ~~cdcc-ops@tmx.com~~, or fax the form to one of CDCC's offices.

Upon receipt of the form, the process for the addition / deletion is performed by one of CDCC's senior managers.

~~Section 6~~ **SECTION 11** ESCALATION PROCEDURE

PAYMENT FAILURE ESCALATION PROCEDURE

A failure by a Clearing Member to meet a payment, transfer, deposit, delivery, or acceptance of delivery when such obligation becomes due under the Rules (for the purpose of this Section 11 - Escalation Procedure, a “Payment Failure”) as a result of an operational issue, including any material systems failure, malfunction, or delay encountered by a Clearing Member or its securities intermediary, including its Settlement Agent, Approved Depository, or Approved Custodian, (an “Operational Issue”) shall be managed by the Corporation in accordance with the following procedure, (the “Escalation Procedure”).

1. Communication

- a. For the purposes of this Payment Failure Escalation Procedure:
 - (i) a CDCC Level 1 contact shall be a Director Operations, or its equivalent;
 - (ii) a CDCC Level 2 contact shall be a Vice-President Operations, or its equivalent;
 - (iii) a CDCC Level 3 contact shall be the President and Chief Clearing Officer or Vice-President and Chief Risk Officer;
 - (iv) a Clearing Member Level 1 contact shall be a Director of Operations, or its equivalent;
 - (v) a Clearing Member Level 2 contact shall be a Vice-President Operations, or its equivalent; and
 - (vi) a Clearing Member Level 3 contact shall be a senior executive reporting directly to the president of the Clearing Member, or to its equivalent in the absence of a senior executive of the Clearing Member bearing the title “president”.
- b. The CDCC Level 1 contact shall, immediately upon acquiring actual knowledge or confirmation of a Payment Failure by a Clearing Member, notify the Clearing Member Level 1 contact of the Payment Failure. The Clearing Member Level 1 contact shall, within a reasonable period of time, confirm the nature of the issue that caused the Payment Failure and, promptly upon providing such confirmation, proceed to provide the Corporation with the required information in accordance with the Operational Issue Resolution Notice defined below.
- c. In the event that (i) the Clearing Member Level 1 contact fails to respond to the CDCC Level 1 contact within a reasonable period of time, (ii) the Clearing Member Level 1 contact cannot confirm the nature of the issue that caused the Payment Failure, or (iii) the information provided by the Clearing Member Level 1 contact regarding the nature of the Operational Issue that caused the Payment Failure is deemed unsatisfactory by the Corporation, the CDCC Level 2 contact shall immediately contact the Clearing Member Level 2 contact. The Clearing Member Level 2 contact shall, promptly upon being contacted in accordance with this subsection, proceed to provide the Corporation with the required information in accordance with the Operational Issue Resolution Notice defined below.
- d. In the event that (i) the CDCC Level 2 contact fails to reach the Clearing Member Level 2 contact within a reasonable period of time, (ii) the Clearing Member Level 2 contact

ESCALATION PROCEDURE

cannot confirm the nature of the Operational Issue that caused the Payment Failure, or (iii) the information provided by the Clearing Member Level 2 contact regarding the nature of the Operational Issue that caused the Payment Failure is deemed unsatisfactory by the Corporation, the CDCC Level 3 contact shall immediately contact the Clearing Member Level 3 contact. The Clearing Member Level 3 contact shall, within an hour after being contacted in accordance with this subsection, proceed to provide the Corporation with the required information in accordance with the Operational Issue Resolution Notice defined below.

2. Operational Issue Resolution Notice

- a. Upon receiving notification by the Corporation of the Payment Failure in accordance with Section 1 of this Escalation Procedure, if the Clearing Member Level 1, 2, or 3 contact, as the case may be, confirms in accordance with Subsection 1 that the Payment Failure is solely due to an Operational Issue, such Clearing Member Level 1, 2, or 3 contact, as the case may be, shall provide the Corporation with a written confirmation of the nature of the Operational Issue that caused the Payment Failure and a detailed description of the steps proposed to be taken by the Clearing Member to resolve the Operational Issue (together, the "Operational Issue Resolution Notice"). Where the Operational Issue affects the Clearing Member's securities intermediary (including its Settlement Agent, Approved Depository or Approved Custodian), the Clearing Member shall immediately provide the Corporation with the contact details for the relevant representative of such securities intermediary's and include such representative in every communication with the Corporation related to the Operational Issue until the full resolution of the Operational Issue.
- b. The Operational Issue Resolution Notice shall be re-issued by the Clearing Member Level 3 contact, to the Corporation on each day on which the Payment Failure persists, until there is a full resolution of the Operational Issue to the satisfaction of the Corporation.

3. Mitigation Tools

Immediately upon the occurrence of a Payment Failure, the Clearing Member shall use its best efforts to resolve the Operational Issue, and to mitigate the Payment Failure by the use of the following mitigation tools (the "Mitigation Tools") before 3:45 p.m., where necessary:

- a. The Exception Process Request after the start of CDS payment exchange, where applicable, or
- b. The Payment Delay Request.

4. Delayed Resolution

On any Business Day or Swap Business Day on which an Operational Issue Resolution Notice remains in effect, in the event that the Corporation is of the view that the Operational Issue is expected, or likely, to persist until the next following Business Day or Swap Business Day, as applicable,

- a. The Corporation may determine that no Transaction shall be cleared by the Corporation for such Clearing Member until resolution; and

ESCALATION PROCEDURE

- b. The Clearing Member Level 3 contact shall provide written confirmation that the Payment Failure is solely due to an Operational Issue and that the Clearing Member has used its best efforts to use the Mitigation Tools, and requests, if necessary, no later than 3:45 p.m. on the Business Day or Swap Business Day, as applicable, on which the first notification of the Payment Failure has been made, by a Payment Delay Request that the Corporation funds the Clearing Member's obligations of payment to the Corporation until the next following Business Day or Swap Business Day. The Clearing Member shall, upon request by the Corporation, represent and warrant to each of the Corporation's lender, acknowledging and confirming that each of the Corporation and the lender is relying on such representations and warranties without independent inquiry, that the Payment Failure is solely due to an Operational Issue and that no financial condition is affecting the Clearing Member in such a way that the provision of temporary funding in accordance with this section could jeopardize the interest of the Corporation or other Clearing Members. In the event that temporary funding is provided in accordance with this section, all fees and costs incurred by the Corporation in connection with such funding shall be added to and become part of the payment obligation owed by the Clearing Member to the Corporation and will become due immediately.
5. Non-Conforming
- a. If no Mitigation Tool has been successfully implemented by the Clearing Member by the end of the Business Day or Swap Business Day, as applicable, on which the first notification of the Payment Failure has been made, the Corporation may declare the Clearing Member a Non-Conforming Member provided that the President & Chief Clearing Officer (or its designate) of the Corporation, prior to such designation, notifies the appropriate senior officer of the Bank of Canada in accordance with the Bank of Canada communication requirements.
 - b. If a Mitigation Tool has successfully been used by the Clearing Member but the Corporation is not satisfied with the information provided pursuant to the Operational Issue Resolution Notice, or considers that the steps proposed to be taken by the Clearing Member to resolve the Operational Issue expose the Corporation to an unacceptable level of risk, the Corporation may declare the Clearing Member a Non-Conforming Member, provided that the President & Chief Clearing Officer (or designate) of the Corporation prior to such designation notifies the appropriate senior officer of the Bank of Canada in accordance with the Bank of Canada communication requirements. The Corporation shall not exercise this discretion without having first performed the Escalation Procedure pursuant to Section 11 within a reasonable timeframe upon acquiring actual knowledge or confirmation of a Payment Failure by a Clearing Member and will not exercise this discretion before 10:00 a.m. on the day following the receipt of the Level-3 Operational Issue Resolution Notice, unless the Clearing Member has not confirmed that the Payment Failure results from an Operational Issue.

OVERNIGHT UNCOVERED RISK EXPOSURE

During the Overnight Clearing Cycle, CDCC's risk appetite for acceptable levels of uncovered risk are measured every hour on a per Clearing Member basis as a proportion of their Margin requirements, and will therefore take the form of a relative threshold (the "Threshold"). The first monitoring snapshot occurs at 10:00 p.m. ET (t-1) and the last one at 8:15 a.m. ET, where the Margin requirement is systemically updated with movements in Core Initial Margin, but only updated twice with movements in Variation Margin (at the 1:00 a.m. ET and 8:15 a.m. ET monitoring snapshot). The hourly monitoring of both the Core Initial Margin and Variation Margin is available and used to estimate the build-up of credit exposure (the "Live margin check").

The Threshold will only apply if at least one position movement is captured during the Overnight Clearing Cycle, allowing the Clearing Member to be considered inactive as long as positions remain static ("Position-based trigger"). In other words, a Clearing Member will be considered inactive until one position movement is captured, after which such Clearing Member will be considered active for the rest of the Overnight Clearing Cycle.

The Threshold will trigger different actions depending on the Clearing Member's established overnight collateral solution (i.e. Pre-funding solution or Payment solution, see additional details in Section 12 below). Consequently, CDCC uses the following terminology for the Threshold:

- **"Margin Call threshold"** - Applicable to the Payment solution. If the Clearing Member reaches the Margin Call threshold, an Overnight Margin Call is issued and needs to be fulfilled within the given timeline. If the Clearing Member doesn't fulfill its payment obligation or the payment capabilities are not enough to fulfill the obligation, CDCC may deem such Clearing Member as a Restricted Clearing Member.
- **"Trading threshold"** - Applicable to the Pre-funding solution. If the Clearing Member reaches the Trading threshold, CDCC may deem such Clearing Member as a Restricted Clearing Member.

Additionally, CDCC will use the below terminology to address Live margin check breaches:

- **"Warning threshold"** - Should only the Live margin check be breached, a warning is communicated to the Clearing Member.

Overnight Uncovered Risk Exposure Escalation procedure:

- a. the overnight contact list for the purposes of the "Overnight Uncovered Risk Exposure" Escalation Procedure:
 - (i) a CDCC Level 1 contact shall be an Operations Specialist, its equivalent or higher;
 - (ii) a CDCC Level 2 contact shall be a Senior Manager, its equivalent or higher;
 - (iii) a CDCC Level 3 contact shall be the President or Chief Clearing Officer or Vice-President and Chief Risk Officer;
 - (iv) a Clearing Member Level 1 contact shall be an Operation Specialist, its equivalent or higher;

ESCALATION PROCEDURE

- (v) a Clearing Member Level 2 contact shall be a Senior Manager, its equivalent or higher; and
 - (vi) a Clearing Member Level 3 contact shall be a senior executive reporting directly to the president of the Clearing Member, or to its equivalent in the absence of a senior executive of the Clearing Member bearing the title “president”.
- b. The CDCC Level 1 contact shall, immediately upon acquiring confirmation of a Warning threshold breach by a Clearing Member, notify the Clearing Member Level 1 contact of the “Warning threshold” breach.
- c. The CDCC Level 1 contact shall, immediately upon acquiring confirmation of a Margin Call threshold breach by a Clearing Member, notify the Clearing Member Level 1 contact of the breach and that an Overnight Margin Call will be issued.
- d. The CDCC Level 2 contact shall, immediately upon acquiring confirmation of a Trading threshold breach or that the Clearing Member didn’t fulfill its payment obligation following the issuance of an Overnight Margin Call, notify the Clearing Member Level 2 contact of the situation and that the Clearing Member may be deemed a Restricted Clearing Member by CDCC.
- e. The CDCC Level 3 contact shall, immediately upon acquiring actual knowledge or confirmation that a Clearing Member may be or was deemed a Restricted Clearing Member, communicate with the Clearing Member Level 3 contact.

~~Section 7~~ SECTION 12 OVERNIGHT CLEARING CYCLE REQUIREMENTS

During the Overnight Clearing Cycle, Clearing Members are assigned to one of the following solution based on their payment capabilities:

- Pre-funding solution (i.e. Overnight Clearing Cycle Eligible Collateral payment capabilities not available)
- Payment solution (i.e. Overnight Clearing Cycle Eligible Collateral payment capabilities available)

By default, Clearing Members are considered part of the Pre-funding solution until they demonstrate their ability to meet their obligations towards CDCC from amongst the below list of Overnight Clearing Cycle Eligible Collateral with respect to the Asian hours, European hours, or both:

- “Asian hours” - i.e. 8:00 p.m. to 1:00 a.m. ET - in a selection of eligible Non-CAD currencies.
- “European hours” - i.e. 1:00 a.m. to 8:15 a.m. ET - in a selection of eligible currencies until 7:00 a.m. ET or any form of eligible collateral pledged through CDSX.

Clearing Members opting to qualify for the Payment solution during either the Asian hours, European hours or both will automatically be considered as part of the Payment solution at the 1:00 a.m. ET monitoring snapshot (juncture of Asian and European hours).

CDCC will conduct routine testing of the Payment solution from time to time to ensure that operational readiness is maintained by Clearing Members. Should a Clearing Member fail such tests, it will be reassigned to the Pre-funding solution.

CDCC will allow Clearing Members under the Pre-funding solution to enter the Payment solution at any time after the required certification requirements are passed.

OPERATIONS MANUAL

CLEAN VERSION

**CANADIAN DERIVATIVES CLEARING CORPORATION
CORPORATION CANADIENNE DE COMPENSATION DE PRODUITS
DÉRIVÉS**

OPERATIONS MANUAL

[...], 2026

SECTION 1 PREAMBLE AND DEFINITIONS

PREAMBLE

This Amended and Restated Operations Manual cancels and supersedes the previous versions thereof.

CDCC and its Clearing Members are contractually bound by the Membership Agreement which is constituted by the Application for Membership when accepted by CDCC, as may be amended from time to time, which incorporates by reference the Rules of CDCC, as may be amended from time to time. The Rules of CDCC include this Operations Manual, as may be amended from time to time. In the case of conflict, the provisions of the Rules (excluding the Operations Manual) prevail over this Operations Manual. The provisions of the Rules (including this Operations Manual), in the case of conflict, prevail over the provisions of the Application for Membership.

The Operations Manual provides practical details with respect to (i) certain definitions, (ii) timelines, (iii) reports, (iv) trade processing, (v) open positions, (vi) exercises, tenders, assignments and delivery, (vii) settlement, (viii) additional margin processing, and (ix) clearing fees. The Operations Manual contains two schedules which are integral parts thereof: (a) the Risk Manual providing practical details with respect to margin and other risk management processes, including the Default Manual as an Appendix, and (b) the templates of depository agreements.

All times specified in this Operations Manual refer to Eastern Time, unless otherwise indicated.

All amounts specified in this Operations Manual refer to Canadian currency, unless otherwise indicated.

All capitalized terms used in this Operations Manual shall have the meanings assigned to them in the Rules unless the context otherwise requires or unless specifically defined differently herein.

DEFINITIONS

Unless otherwise defined in this Operations Manual, capitalized terms shall have the meanings given to them in the Rules.

“Assets” - Securities pledged to and cash deposited by the Clearing Member with CDCC.

“Automatic Exercise” - a process by which CDCS will exercise In-the-Money Options at a pre-determined threshold.

“CAD” - Canadian Dollars.

“CDCC Clearing Application” - CDCS and all the processes associated with it, as may be supplemented or otherwise changed from time to time.

“CDCS” - means the Canadian Derivatives Clearing Service or any successor performing a function substantially equivalent to the function performed by it.

“CFTC Requirement Validation” - the process by which CDCC determines that the basket of securities underlying a Bilateral Swap Transaction or Swap Amendment satisfies the definition of TRS Eligible Basket.

“Closing Transaction” - any Transaction that is either a Closing Buy Transaction, a Closing Purchase Transaction, a Closing Sell Transaction or a Closing Writing Transaction, as such terms are defined in the Rules, and in all cases that reduces or eliminates the Clearing Member's Open Interest.

“Converge” - marketing brand of the portion of the CDCC Clearing Application that captures and processes OTCI Transactions, including Fixed Income Transactions.



“Eligible Collateral” - collateral which may be deposited with the Corporation for the purpose of fulfilling Margin requirements and which meets certain criteria described in the Risk Manual.

“Exerciser” - a Clearing Member that holds a Long Position in a particular Series of Options and submits an Exercise Notice to CDCC.

“Expiry Friday” - the third Friday of the month, unless that Friday is not a Business Day, then the Business Day preceding the third Friday of the month.

“FIFO Period” - the quarterly delivery period for Futures contracts on Government of Canada bonds (with the exception of the LGB), in accordance with Contract Specifications of the relevant Exchange.

“Forward Repurchase Transaction” - a Repurchase Transaction in respect of which the Open Leg has not settled yet at the time of the relevant report.

“Inquiry Screen” - Graphical User Interface (GUI) view of the CDCC Clearing Application.

“Large Value Transfer System” or **“LVTS”** - an electronic wire system introduced by the Canadian Payments Association in February 1999 to facilitate the transfer of irrevocable payments in Canadian dollars across the country.

“Margin Fund Accounts” - the CDCS record provided to each Clearing Member containing all Margin deposited by such Clearing Member to CDCC, in respect to the Firm Margin Accounts, GCM Regime Margin Accounts and Non-GCM Regime Margin Accounts for any of the following: (1) Base Initial Margin (or Adjusted Base Initial Margin, as the case may be), (2) Additional Margin for Market Liquidity Risk, (3) Additional Margin for Specific Wrong-Way Risk, (4) Additional Margin for Mismatched Settlement Risk, (5) Additional Margin for Intra-Day Variation Margin Risk, (6) Additional Margin for Unpaid Option Premium Exposure Risk, (7) Additional Margin for Banking Holiday Risk, (8) Additional Margin for Variation Margin Delivery Risk, (9) Additional Margin for Capital Risk, (10) Additional Margin for Uncovered Risk of Limited Clearing Members, (11) Additional Margin for Intra-Day GCM Risk, (12) Additional Margin for Undeclared GCM Positions Risk, (13) Additional Margin for Dividend Payment Risk, (14) Additional Margin for Stress Test Risk, (15) Variation Margin for Options, and (16) Variation Margin for Unsettled Item; the whole in accordance with the Risk Manual, or otherwise as set forth in Section 8 hereof. For greater certainty, reference herein to Margin Fund Accounts include references to TRS Margin Fund Accounts.

“Mini Contract” - a Future or an Option that has the same Underlying Interest as a Standard Contract but having a Unit of Trading that is a ratio of the Standard Contract in accordance with applicable Contract Specifications.

“Net Settlement Position” - all the future Net Delivery Requirements and Net Payment Against Delivery Requirements of a Clearing Member, as reported by CDCC on a daily basis, taking into account all Fixed Income Transactions that have settled during the day and all new Fixed Income Transactions that have been novated to CDCC.

“Net Variation Margin Requirement” - has the meaning given thereto in Section D-601 of the Rules. Reference will be made to (Fixed Income) Net Variation Margin Requirement in this Manual.

“Open Position File” - database of the CDCC Clearing Application which compiles the Open Positions of all Clearing Members. Each Clearing Member can access the information pertaining to his accounts only, not to other Clearing Members' accounts.



“Opening Transaction” - any Transaction that is either an Opening Buy Transaction, an Opening Purchase Transaction, an Opening Sell Transaction or an Opening Writing Transaction as set forth in Section A-102 of the Rules.

“Operational Notices” - formal notifications to the Clearing Members, representing items that are not published on CDCC’s website. These documents are available on the Secured Website.

“OTCI Equity Options” - over the counter options on an equity, bearing characteristics that differ from Exchange traded Options and are cleared by CDCC through Converge.

“Overnight Clearing Cycle” - clearing cycle starting at 8:00pm (t-1) and ending at 8:15 a.m. ET.

“Position Transfer” - this is the CDCC Clearing Application function to move a position from one Clearing Member to another.

“Production Schedule” - all of the time lines that are followed by CDCC, as set forth in Section 2 of this Operations Manual.

“Regular Clearing Cycle” - clearing cycle starting at 8:15am and ending at 5:30pm ET.

“Request for Standard vs Mini Offset” - the request by a Clearing Member, in the form prescribed by CDCC, to offset one (1) or more Long Position(s) on a Standard Contract against the equivalent number of Short Positions on the corresponding Mini Contract (totaling the same quantity of the Underlying Interest in accordance with the ratio prescribed in the Contract Specifications of the Mini Contract), having the same Delivery Month and booked in the same Clearing Member’s account, or the other way around.

“Running Repurchase Transaction” - a Repurchase Transaction in respect of which the Open Leg has already settled at the time of the relevant report.

“Secured Website” - Clearing Members only secured web site that requires a sign on and password, where CDCC publishes Operational Notices as well as documents that are meant only for the Clearing Members.

“SFTP Downloads” - Clearing Member’s access to files and reports on an SFTP server that is part of the CDCC Clearing Application

“Specific Deposit” - a Put Escrow Receipt, a Call Underlying Interest Deposit or a Futures Underlying Interest Deposit which are accepted by CDCC as Underlying Interest Equivalent to cover a specific Short Position.

“Standard Contract” - a Future or Option in relation to which a Mini Contract exists.

“Tenderer” - a Clearing Member that holds a Short Position in a particular Series of Futures and submits a Tender Notice, or is deemed to do so in accordance with the Rules, to CDCC.

“TRS Base Initial Margin” - has the meaning given to “Swap Base Initial Margin” in Section A-102 of the Rules.

“TRS Basket Share” - has the meaning given to “Basket Share” in Section D-801 of the Rules.

“TRS Corporate Action” - has the meaning given to “Corporate Action” in Section D-801 of the Rules.



“TRS Designated Custodian” - has the meaning given to “Designated Custodian” in Section D-801 of the Rules.

“TRS Designated Depository” - has the meaning given to “Designated Depository” in Section D-801 of the Rules.

“TRS Designated Financial Institution” - has the meaning given to “Designated Financial Institution” in Section D-801 of the Rules.

“TRS Economic Term” - has the meaning given to “Economic Terms” in Section D-801 of the Rules

“TRS Eligible Basket” - has the meaning given to “Eligible Basket” in Section D-801 of the Rules.

“TRS Eligible Index” - has the meaning given to “Eligible Index” in Section D-801 of the Rules.

“TRS Equity Leg” - has the meaning given to “Equity Leg” in Section D-801 of the Rules.

“TRS Equity Notional Amount” - has the meaning given to “Equity Notional Amount” in Section D-801 of the Rules.

“TRS Extraordinary Event” - has the meaning given to “Extraordinary Event” in Section D-801 of the Rules.

“TRS Floating Amount” - has the meaning given to “Floating Amount” in Section D-801 of the Rules.

“TRS Floating Leg”- has the meaning given to “Floating Leg” in Section D-801 of the Rules.

“TRS Floating Notional Amount” - has the meaning given to “Floating Notional Amount” in Section D-801 of the Rules.

“TRS Floating Notional Reset Date” - has the meaning given to “Floating Notional Reset Date” in Section D-801 of the Rules.

“TRS Floating Rate” - has the meaning given to “Floating Rate Option” in Section D-801 of the Rules.

“TRS Floating Rate Reset Date”- has the meaning given to “Floating Rate Reset Date” in Section D-801 of the Rules.

“TRS Margin” - has the meaning given to “Swap Margin” in Section A-102 of the Rules.

“TRS Margin Fund Account” - the CDCS record provided to each Clearing Member containing all TRS Margin deposited by such Clearing Member to CDCC further to entering into a Proprietary Swap Transaction, in respect to the Firm Margin Accounts for any of the following: (1) TRS Base Initial Margin, (2) Additional Margin for Market Liquidity Risk, (3) Additional Margin for Intra-Day Variation Margin Risk, (4) Additional Margin for Banking Holiday Risk, (5) Additional Margin for Capital Risk, (6) Additional Margin for Stress Test Risk, and (7) Additional Margin for Dividend Payment Risk; the whole in accordance with the Risk Manual, or otherwise as set forth in Section 8 hereof.

“TRS Maturity Date” - has the meaning given to “Maturity Date” in Section D-801 of the Rules.

“TRS Net Settlement Amount” - has the meaning given to “Swap Net Settlement Amount” in Section D-801 of the Rules.



“TRS Termination Date” - has the meaning given to “Termination Date” in Section D-801 of the Rules.

“Unsettled Item” - any delivery of the Underlying Interest that has not been settled at the Central Securities Depository.

“(Fixed Income) Variation Margin Account” - the CDCS record provided to each Clearing Member containing all Margin deposits made by such Clearing Member to CDCC for (Fixed Income) Net Variation Margin Requirement purposes only, in accordance with Section D-607 of the Rules, or otherwise as set forth in Section 8 hereof.

“Weekly Options” - Options that expire on any Friday, other than Expiry Friday. Only monthly Options expire on Expiry Friday.



SECTION 2 TIME FRAMES

ON-LINE ACCESS

Each Clearing Member must be connected to the CDCC Clearing Application using its PC terminals to perform a variety of functions. (Clearing Members must supply their own PC terminals and Internet connection, at their own cost).

All instructions (corrections, Open Position changes, Position Transfers, Deposits, contributions, withdrawals, and submission of Exercise Notices and Tender Notices) must be entered on-line.

The CDCC Clearing Application allows Clearing Members to view their current information throughout the day electronically (except during scheduled maintenance or unforeseen outages). In addition, Clearing Members can download their reports after 9:30 p.m. every day (except on expiry days - see Time Frames sections) using the SFTP Download function.

Should a Clearing Member not have electronic access to the CDCC Clearing Application during Business Hours, CDCC can perform instructions on behalf of the Clearing Member. This requires a phone call from the Clearing Member to CDCC, along with the appropriate form faxed or scanned and e-mailed to CDCC. Such form must be signed by an Authorized Representative of the Clearing Member.

With respect to operational activity related to Options with an Expiration Date on Expiry Friday, CDCC staff members are available from 7:00 a.m. to fifteen (15) minutes after delivery of the Options Exercised and Assigned Report (MT02).

TIME FRAMES

SETTLEMENT TIME FOR EVERY BUSINESS DAY

Activity	Time Frames	Activity Type
Beginning of Clearing Day and Overnight Clearing Cycle	8:00 p.m. (t-1)	System Activity
Clearing Member's (excluding LCMs) Overnight Margin Calculation & Notification	Every hour from 10:00 p.m. (t-1) to 7:00 a.m. and 8:15 a.m. (t)	System Activity/Notification
Deadline to settle Overnight Margin Call notification	2 hours after	Obligation Deadline
Beginning of Settlement Day at CDS	5:30 a.m.	System Activity
End of Overnight Clearing Cycle	8:15 a.m.	System Activity
Beginning of Regular Clearing Cycle	8:15 a.m.	System Activity
Assets Concentration Limits breach notification	7:30 a.m.	Notification
Deadline for Clearing Members (excluding LCMs) for Settlement Time with respect to payments for overnight settlement	8:15 a.m.	Obligation Deadline
Fixed Income Transactions - Netting Cycle Timeframe in respect of any Pending Settlement Requirements - 15 minutes cycle	8:30 a.m.	System Activity
Deadline for Clearing Members (excluding LCMs) to receive EOD Amount due from CDCC	8:45 a.m.	Obligation Deadline
SGC Securities Adjustment and SGC Initial Securities Adjustments Settlement Time	9:30 a.m.	Obligation Deadline
SGC Concentration Limits compliance	9:30 a.m.	Obligation Deadline
Deadline for LCMs for Settlement Time with respect to payments for overnight settlement	9:00 a.m.	Obligation Deadline
Fixed Income Transactions - Morning Netting Cycle Timeframe in respect of any Pending Payment Against Delivery Requirements (Morning Net Payment Against Delivery Requirements sent to CDS for settlement during the Morning Net DVP Settlement Timeframe) - 15 minutes cycle	10:00 a.m.	System Activity
Morning Net DVP Settlement Calculation	10:15 a.m.	System Activity
Deadline for Morning Net DVP Settlement	10:30 a.m.	Obligation Deadline
Clearing Member's (excluding LCMs) Morning Intra- Day Margin Calculation & Notification	10:30 a.m.	System Activity/Notification
SGC Maturity Settlement Time	10:30 a.m.	Obligation Deadline

TIME FRAMES

Deadline to settle Morning Intra-Day Margin Call for Clearing Members (excluding LCMs)	1 hour after notification	Obligation Deadline
ACV Securities Requirement Delivery - Deadline on any given day pursuant to an Open Leg or Close Leg of the SGC Repurchase Transaction	8:30 a.m.	Obligation Deadline
Start of the SGC Close Leg process	8:30 a.m.	Operational Activity/Notification
End of the SGC Close Leg process & Deadline for SGC Clearing Members to cover payment obligation	10:30 a.m.	Obligation Deadline
SGC Clearing Members - Beginning of SGC Repurchase Transaction Submission Period - Sale of SGC Securities (3 Business Day Prior Notice)	11:00 a.m.	Operational Activity/Notification
Assets Concentration Limit breach correction deadline	11:45 a.m.	Obligation Deadline
Fixed Income Transactions - Netting Cycle Timeframe in respect of any Pending Settlement Requirements - 15 minutes cycle	12:15 p.m.	System Activity
Clearing Member's Afternoon Intra-Day Margin Calculation & Notification	12:45 p.m.	System Activity/Notification
SGC Securities Adjustment Requirement and SGC Initial Securities Adjustments Calculation and Notification	12:45 p.m.	System Activity/Notification
Deadline to settle Afternoon Intra-Day Margin Call for Clearing Members (excluding LCMs)	1 hour after notification	Obligation Deadline
SGC Securities Adjustment and SGC Initial Securities Adjustments Settlement Time	2 hours after notification	Obligation Deadline
Specific Deposits (same day withdrawal)	12:45 p.m.	Operational Deadline
Deadline to settle Intra-Day Margin Call and Additional Margins for LCMs	The later of 2:45 p.m. or 2 hours after notification	Obligation Deadline
Fixed Income Transactions - Netting Cycle Timeframe in respect of any Pending Settlement Requirements - 15 minutes cycle	2:00 p.m.	System Activity
CAD Deposits - \$10,000,000 and under (same day deposit)	2:45 p.m.	Operational Deadline
CAD Deposits - over \$10,000,000 (2 Business Days or Swap Business Days notice)	2:45 p.m.	Operational Deadline

TIME FRAMES

CAD withdrawal requests - \$10,000,000 and under (same day withdrawal)	2:45 p.m.	Operational Deadline
CAD withdrawal requests - over \$10,000,000 (2 Business Days or Swap Business Days notice)	2:45 p.m.	Operational Deadline
SGC Clearing Members - End of SGC Repurchase Transaction Submission Period (3 Business Day Prior Notice)	3:00 p.m.	Operational Deadline
Fixed Income Transactions - (Same Day Transactions) - Submission Cut-Off Time	3:30 p.m.	Operational Deadline
Clearing Members (excluding LCMs) - All Assets deposits other than cash (Margin deposits)	3:30 p.m.	Operational Deadline
Clearing Members - All Assets withdrawal requests other than cash (Margin deposits) for same day withdrawal	3:30 p.m.	Operational Deadline
Clearing Members - All Assets substitution requests other than cash (Margin deposits) for same day substitution	3:30 p.m.	Operational Deadline
Foreign currency withdrawal requests deadline	3:30 p.m.	Operational Deadline
Fixed Income Transactions - Afternoon Netting Cycle Timeframe in respect of any Pending Settlement Requirements (Afternoon Net DVP Settlement Requirements sent to CDS for settlement by End of Day DVP Settlement Time) - 5 minutes cycle	3:35 p.m.	System Activity
CDS Payment Exchange, Net Wire Payment	4:00 p.m.	System Activity
ACV Securities (same day withdrawal)	4:00 p.m.	Operational Deadline
End of Day DVP Settlement Time	4:00 p.m.	Obligation Deadline
Unsettled Item (Options Underlying deliveries only): Confirmation of settled items to be sent to CDCC	4:15 p.m.	Operational Deadline
Deadline for CDCC to respond to substitution or withdrawal request (other than (Fixed Income) Variation Margin)	4:30 p.m.	Obligation Deadline
OTCI (other than Fixed Income Transactions) - Trade Submission Deadline	4:30 p.m.	Operational Deadline
Projected Margin Report Computation	4:30 p.m.	System Activity

TIME FRAMES

SGC Securities Adjustment Requirement and SGC Initial Securities Adjustments Calculation and Notification	4:30 p.m.	System Activity
SGC Concentration Limits breach notification	4:30 p.m.	Notification
Request for Standard vs Mini Offset	5:00 p.m.	Operational Deadline
Position Transfers	5:25 p.m.	Operational Deadline
Same Day and T+1 Trade corrections	5:30 p.m.	Operational Deadline
Futures - Tender Notices submission	5:30 p.m.	Operational Deadline
Options - Exercise Notices submission	5:30 p.m.	Operational Deadline
Fixed Income Transactions and Futures contracts on Acceptable Securities - Netting Cut Off Time (Netted settlement instructions (Net Delivery Requirements and Net Payment Against Delivery Requirements) sent to CDS for settlement on the next Business Day)	6:15 p.m.	System Activity
FIFO: Daily reporting by Clearing Members of the Long Positions in each of their accounts in chronological order	5:30 p.m.	Operational Deadline
FIFO: Submission of Tender Notices	5:30 p.m.	Operational Deadline
Open Position changes / Position Change Submission (PCS)	6:00 p.m.	Operational Deadline
End of Regular Clearing Cycle and CDCC Clearing Application shutdown - Close of Business	6:00 p.m.	System Activity
LCM Only - All Assets deposits other than cash (in respect of all Margin requirements)	6:30 p.m.	Operational Deadline
Fixed Income Transactions - available (next Business Day start)	7:00 p.m.	System Activity
GCM Position Adjustment availability	7:00 p.m.	System Activity
GCM Position Adjustment end of availability	8:45 p.m.	Operational Deadline
GCM Declaration File - Submission-	Before 9:00 p.m.	Operational Deadline
GCM Settlement Calculation	9:00 p.m.	System Activity

SETTLEMENT TIME FOR (FIXED INCOME) VARIATION MARGIN FOR EVERY BUSINESS DAY

TIME FRAMES

Activity	Time Frames	Activity Type
Deadline to deliver securities to CDCC to settle (Fixed Income) Net Variation Margin Requirement	9:30 a.m.	Obligation Deadline
Deadline to submit to CDCC a (Fixed Income) Buy-In request for same day settlement	10:00 a.m.	Operational Deadline
Deadline to deliver securities to Clearing Members by CDCC to settle (Fixed Income) Net Variation Margin Requirements	10:30 a.m.	Obligation Deadline
Deadline to submit substitutions for same day settlement	11:00 a.m.	Operation Deadline
Deadline for CDCC to submit substitution instructions to Clearing Members for same day settlement	12:00 (noon)	Operational Deadline
Deadline to deliver same day settlement substitution to CDCC	3:00 p.m.	Obligation Deadline
Deadline for CDCC to deliver same day substitutions for Variation Margin in respect of Fixed Income Transactions	4:00 p.m.	Obligation Deadline
EOD (Fixed Income) Net Variation Margin Requirement Computation	4:30 p.m.	System Activity

TIME FRAMES

SETTLEMENT TIME FOR PROPRIETARY SWAP TRANSACTIONS FOR EVERY SWAP BUSINESS DAY

Activity	Time Frames	Activity Type
TRS Margin Assets Concentration Limits breach notification	8:30 a.m.	Notification
Deadline for Swap Clearing Members to pay the TRS Net Settlement Amount	9:00 a.m.	Obligation Deadline
Deadline for Swap Clearing Members to settle end of day Margin call for TRS Margin	9:00 a.m.	Obligation Deadline
Start of Proprietary Swap Transaction novation process	9:30 a.m.	System Activity
Deadline for Swap Clearing Members to receive end of day TRS Net Settlement Amount due from CDCC	9:45 a.m.	Obligation Deadline
TRS Margin morning Intra-Day Swap Margin Call calculation and notification	10:30 a.m.	System Activity/Notification
Deadline to settle morning Intra-Day Swap Margin Call for TRS Margin Fund	1 hour after notification	Obligation Deadline
TRS Margin Assets Concentration Limit breach correction deadline	11:45 a.m.	Obligation Deadline
TRS Margin afternoon Intra-Day Swap Margin Call calculation and notification	12:45 p.m.	System Activity/Notification
Deadline to settle afternoon Intra-Day Swap Margin Call for TRS Margin	1 hour after notification	Obligation Deadline
Deadline for USD cash deposit requests	2:15 p.m.	Operational Deadline
Deadline for USD cash withdrawal requests	2:15 p.m.	Operational Deadline
Deadline for all non-cash Assets deposit requests effected through a TRS Designated Custodian	3:00 p.m.	Operational Deadline
Deadline for all non-cash Assets withdrawal requests effected through a TRS Designated Custodian	3:00 p.m.	Operational Deadline
Deadline for all non-cash Assets substitution requests effected through a TRS Designated Custodian	3:00 p.m.	Operational Deadline
Cut-off of Proprietary Swap Transaction submissions	3:40 p.m.	System Activity
Cut-off of Proprietary Swap Transaction matching	3:45 p.m.	System Activity
TRS Margin end of day Margin Calculation & Notification	4:30 p.m.	System Activity/Notification

TIME FRAMES

Activity	Time Frames	Activity Type
Deadline for all non-cash Assets deposit requests effected through a TRS Designated Depository	6:00 p.m.	Operational Deadline
Deadline for all non-cash Assets withdrawal requests effected through a TRS Designated Depository	6:00 p.m.	Operational Deadline
Deadline for all non-cash Assets substitution requests effected through a TRS Designated Depository	6:00 p.m.	Operational Deadline

TIME FRAMES

SETTLEMENT TIME FOR MONTHLY EXPIRY

Activity	Time Frames	Activity Type
Reports available (SFTP Download):	7:15 p.m.	Publication
➤ Expiry Report (MX01)		
➤ Expiry Options Daily Transaction Report (MT01)		
➤ List of Options/Cash Adjustments (MT03)		
CDCC Clearing Application available for:	7:15 to 9:15 p.m.	Operational Deadline
➤ Trade corrections		
➤ Open Position changes		
➤ Position Transfers		
➤ Changes to Automatic Exercises		
➤ Exercise Notices input		
➤ Cancel / correct Friday's exercises		
CDCC Clearing Application shutdown:	9:15 p.m.	Operational Deadline
➤ CDCC processes expiry entries		
Reports available (SFTP Download):	9:30 p.m.	Publication
➤ List of Expiry Adjustments Report (MX02)		
➤ Expiry Difference Report (MX03)		
CDCC Clearing Application available again for:	9:30 to 9:45 p.m.	Operational Deadline
➤ Review of expiry entries		
➤ Corrections to expiry entries		
CDCC Clearing Application shutdown	9:45 p.m.	Operational Deadline
➤ Close of Business		
Reports available (SFTP Download):	10:30 p.m.	Publication
➤ Options Exercised and Assigned Report (MT02)		
➤ Other reports and files also available		

TIME FRAMES

SETTLEMENT TIME FOR WEEKLY EXPIRY

Activity	Time Frames	Activity Type
CDCC Clearing Application available for:	7:00 to 8:00 p.m.	Operational Deadline
➤ Trade corrections		
➤ Open Position changes		
➤ Position Transfers		
➤ Changes to Automatic Exercises		
CDCC Clearing Application shutdown:	8:00 p.m.	Operational Deadline
➤ Close of Business		
Reports available (SFTP Download):	9:45 p.m.	Operational Deadline
➤ Options Exercised and Assigned Report (MT02)		
➤ Other reports and files also available		



TIME FRAMES

ADDITIONAL NET DVP SETTLEMENT PROCESS

In respect of any Pending Payment Against Delivery Requirements at the Netting Cycle Timeframe(s) specified in Section 2 of this Operations Manual, CDCC shall send new settlement records (Net Payment Against Delivery Requirements) to the Central Securities Depository reducing any Pending Payment Against Delivery Requirements of a Clearing Member in favour of CDCC by any Pending Payment Against Delivery Requirements of CDCC in favour of the same Clearing Member.



SECTION 3 REPORTS

REPORT REFERENCES

Clearing Member reports contain the following information:

Transactions	Reports relating to Clearing Member's Transactions such as trade entries, trade corrections, trade rejections and exercises/tenders. These reports start with the alpha code MT.
Fees	Report relating to the collection of service fees from the Clearing Member. These reports start with the alpha code MB.
Settlements	Reports relating to Premiums, Settlement of Gains and Losses, and Margin. These reports start with the alpha code MS.
Assets	Reports relating to the maintenance of Clearing Member's Assets as well as depository information. These reports start with the alpha code MA.
Delivery	Reports relating to delivery obligations and unsettled deliveries. These reports start with the alpha code MD.
Positions	Reports relating to positions held by Clearing Members separately for Futures, Options, OTCI, Proprietary Swap Transactions, and Fixed Income Transactions. These reports start with the alpha code MP.
Expiry	Reports used by Clearing Members to verify expiring positions and Automatic Exercises. These reports start with the alpha code MX.
Risk	Reports relating to risk management. These reports start with the alpha code MR.

REPORT DETAILS

Report Code	Report Name	Report Description
Daily:		
MA01	Collateral Report	Details on Clearing Member's deposits and withdrawals for Margin Fund Accounts (Firm, GCM Regime, Non-GCM Regime), Clearing Fund and (Fixed Income) Variation Margin Account. Details deposits and withdrawals for Swap Margin obligations in a separate section. (Note: will find the letters D, W and PW next to the date of deposit)
MA30	SGC Repurchase Transactions Activity Report	Lists Asset balances with SGC Securities Adjustment, SGC Securities Initial Adjustment requirements and SGC Securities sale settlement in Canadian dollars.
MD01	Options Unsettled Delivery Report	Lists unsettled deliveries for Options.
MD51	Futures Unsettled Delivery Report	Lists unsettled deliveries for Futures (does not include Share Futures) - the issue and number of Futures contracts which must be delivered - the account to which the delivery has been assigned and the opposite Clearing Member - the Settlement Amount and Settlement Date
MD52	Share Futures Unsettled Delivery Report	Lists unsettled deliveries for Share Futures (SF) - the issue and number of SF contracts which must be delivered - the account to which the delivery has been assigned and the opposite Clearing Member - the Settlement Amount and Settlement Date
MD70	Fixed Income Net Settlement Delivery Status Report	Status of Clearing Member's settlement activity at the Central Securities Depository with respect to Acceptable Securities on that day.
MD71	Settlement Obligation Calculated Amounts Reports	Provide information on each Settlement Instruction produced at the exit of the Intra-Day netting that is being considered in the PITSO.
MD72	Settlement Obligation Fulfillment	Provide the different settlement instruction status changes during the PITSO. The report is separated in three sections: Settlement, Pending Party At Fault and Cancelled.
MI12	U/I Primary Exchange	List of the underlying prices

Report Code	Report Name	Report Description
M012	Converge Option Price	List of the Clearing Member's Converge option prices
MP01	Options Open Positions Report	Lists the Clearing Member's Open Positions for puts and calls.
MP02	Sub-Account Options Open Positions Report	Lists all Options Open Positions in sub-accounts of the Clearing Member's Client Account(s), Firm Account(s) and Multi-Purpose Account(s).
MP21	Contract Adjustment Report	Lists the Clearing Member's Long Positions and Short Positions before and after the relevant contract adjustment. Lists the details of all TRS Corporate Actions and TRS Extraordinary Events activities that result in adjustments to the TRS Eligible Basket on a Proprietary Swap Transaction.
MP51	Futures Open Positions Report	Lists the Clearing Member's Futures and Options on Futures Open Positions for all accounts.
MP53	GCM Forecasted Balance Account Report	Lists the Clearing Member's clients Futures and Options on Futures Open Positions declared via the GCM Declaration File at the time of the GCM file submission highlighting the forecasted balance account positions.
MP54	GCM Declaration File Report	Details the results of the GCM Declaration File received from Clearing Members and provide any errors found (in CSV format)
MP55	GCM Balance Account Report	Lists the Clearing Member's Clients Futures and Options on Futures Open Positions declared via the GCM Declaration File with the associated Margin figures of each individual client account within the Client Account Omnibus structure.
MP70	Fixed Income Forward Repo Position Report	Lists the Clearing Member's Repurchase Transactions accepted for clearing by CDCC.
MP71	Fixed Income Forward Repo Conversion	Lists all of the Clearing Member's Repurchase Transactions that have progressed from Forward Repurchase Transactions to Running Repurchase Transactions on that day.
MP73	Fixed Income Running Repo Open Positions Report	Lists all of the Clearing Member's Running Repurchase Transactions as of that day.
MP75	Fixed Income Forward Net Settlement Positions Report	Lists all of the Clearing Member's Forward Net Settlement Positions obligations.
MP79	Daily Repo Rate Mark to Market Report	Lists the Clearing Member's Repo Rate Requirements.
MP85	TRS Daily Detailed Report	Listing information related to any Proprietary Swap Transactions held by the Clearing Member, including notional amounts, rates, funding settlements,

Report Code	Report Name	Report Description
		performance settlements, dividend payments & Next Reset Dates.
MS01	Daily Settlement Summary Report	Lists Asset balances with Margin requirements for each Margin Fund Account (Firm, GCM Regime and Non-GCM Regime), cash settlements in Canadian and U.S. dollars from Options or Futures trades or positions and cash settlements in U.S. dollars from Proprietary Swap Transactions.
MS06	Total Margin Requirement Report	Total Margin requirement report with breakdown by Margin Fund Accounts (Firm, GCM Regime and Non-GCM Regime) categories, account types (Firm, Client, Multi-Purpose) and sub-accounts.
MS07	Margin Report By Collateral Pool	Margin call details with Margin requirements by Margin Fund Accounts (Firm, GCM Regime and Non-GCM Regime) and Risk Accounts.
MS08	Daily Margin Positions Report	Lists details of positions by Class Group with Margin requirements.
MS10	Variation Margin Summary Report	Lists the details of the Fixed Income Clearing Member's Variation Margin activities and suggests securities to return if applicable.
MS30	SGC Securities Adjustment Requirement Report	SGC Securities Adjustment and SGC Initial Securities Adjustment requirement detailed per Series for the SGC Securities on a net basis and for all Series for the SGC Securities on a net basis.
MS70	Fixed Income Net Settlement Position Activity Report	Lists all of the Clearing Member's Fixed Income Transactions activities that contribute to its Net Settlement Position.
MS72	Fixed Income Net Settlement Position Summary Report	Lists a summary of the Clearing Member's Fixed Income Transactions activities that contribute to its Net Settlement Position.
MS73	Entitlement Report	Lists all Fixed Income Clearing Member's coupon payments.
MS75	Fixed Income End of Day Settlement Instruction Report	Detail of Clearing Member's net settlement instructions to be sent to the Central Securities Depository after Netting Cut-Off Time.
MS77	Net Payment Against Delivery Requirement	Provide information at the sub-account level on settlements that occurred during the PITSO.
MS78	Forward NSP & Settlement Instruction Reconciliation Report	Information report containing Net Settlement Position information for the use of Clearing Member for reconciliation.

Report Code	Report Name	Report Description
MS85	Intra-day/end of day Swap Margin Call Report	Lists Intra-Day Swap Margin Call and end of day Margin call details with Margin requirements and Assets balances of a Proprietary Swap Transaction
MT01	Options Daily Transaction Report	Lists details for all Option contracts from previous Business Day.
MT02	Options Exercised and Assigned Report	Lists totals for Options Exercised Positions and Assigned Positions by Series of Options (including the debit and credit dollar values of the Transactions).
MT03	List of Options/Cash Adjustments Report	Lists all trade adjustments and Open Position changes including cash adjustments and Position Transfers.
MT05	Options Consolidated Activity Report	Lists all positions with activity including Option Premiums.
MT06	Options SubAccount Consolidated Activity Report	Lists positions with activity including Option Premiums for only the subaccounts of Client, Firm and Multi-Purpose.
MT10	Unconfirmed Items Report	Lists all items that remained unconfirmed by the opposite member at the end of the current Business Day or Swap Business Day.
MT29	Trades Rejection Modification Report	Lists all original and modified trade rejections for the Clearing Member.
MT51	Final Futures Daily Transaction Report	Lists trade details for all Futures and Options on Futures activity.
MT52	Futures Tenders and Assignments Report	Lists all Tender Notices and Assigned Positions details.
MT53	List of Futures/Cash Adjustments Report	Lists details on all Futures and Options on Futures trade adjustments, Open Position changes, including cash adjustments and Position Transfers.
MT54	Futures Trading Summary Report	Lists all Series of Futures and Options on Futures and prices, and volumes at which each were traded. Lists number of contracts bought and sold for each Series of Futures Trade Prices.
MT60	Single Stock Futures Tenders and Assignments	Lists totals for Share Futures (SF) tendered and assigned positions including the debit and credit dollar values of the transactions.
MT66	Futures Sub-Account Consolidated Activity Report	Lists Futures and Options on Futures positions with activity including Settlement of Gain and Losses and Futures Premiums respectively, for the sub-accounts of Client, Firm and Multi-Purpose.

Report Code	Report Name	Report Description
MT70	Fixed Income Novated Transactions Report	Lists the Clearing Member's daily Fixed Income Transactions novated to CDCC in accordance with the CDCC Clearing Application.
MT71	Fixed Income Novated Trades Report	Lists the data transmitted to CDCC by the Central Securities Depository with respect to the Clearing Member's daily Fixed Income Transactions submitted for clearing.
MT74	Fixed Income Not-Novated Transactions Report	Lists the Clearing Member's daily Fixed Income Transactions that were not novated to CDCC, including all rejected and orphaned trades.
MT85	TRS Activity Report	Lists any activities related to Proprietary Swap Transactions, including amendments, and failed submissions.
MT92	Options on Futures Exercised & Assigned Report	Lists totals for Options on Futures Exercised Positions and Assigned Positions by Series. (Note: Futures Options Exercised Positions and Assigned Positions value is nil.)
MT99	Detailed Futures Consolidated Activity Report	Detailed list of all Futures position with activity, including Settlement of Gains and Losses. Detailed list of all Options on Futures positions and activity including Futures Premiums.
Monthly:		
MA71	Clearing Fund Statement (monthly and intra-monthly)	Identifies the Clearing Member's (excluding LCM) Clearing Fund obligation. Lists the Clearing Member's (excluding LCM) current Deposits within the Core Tranche of the Clearing Fund and what is owed. In a separate section, identifies the Clearing Member's current deposits within the Swap Tranche of the Clearing Fund and what is owed, to be paid separately.
MA80	Supplemental Liquidity Fund Statement (monthly and intra-monthly)	Identifies the Clearing Member's (excluding LCM) Supplemental Liquidity Contributions. Lists the Clearing Member's (excluding LCM) current Supplemental Liquidity Contributions within the Supplemental Liquidity Fund and what is owed. In a separate section, identifies the Clearing Member's Swap Liquidity Contributions in the Swap Tranche of the Supplemental Liquidity Fund. Lists the Clearing Member's current Supplemental Liquidity Contributions within the Swap Tranche of the Supplemental Liquidity Fund and what is owed, to be paid separately.
MB01	Monthly Clearing Fees Invoice	This report contains summarization of the monthly clearing fees in an invoice format - THIS IS NOT TO

Report Code	Report Name	Report Description
		BE PAID. The system automatically includes the collection of the fees within the daily settlement on the morning of the fifth Business Day of the month.
MB02	Monthly Clearing Fees Details Report	This report contains the following four sub-reports: “Fees” - this is product by sub-account. “Summary by Category” - this is summarization by product. “Sub-Account Summary” - this is a summary of the operational charges by sub-account irrespective of product. “Summary by Account Operation Type” - this is a summary of the operational charges by sub-account.
MB03	Monthly Fixed Income Clearing Fees Invoice	This report details the clearing fees that are due with respect to Fixed Income Transactions by each Clearing Member.
MT40	Broker Ranking by Account Report	Individual Clearing Member ranking within CDCC for contracts, value traded and transactions (trade only) by month with year to date.
FIFO Period:		
MP56	FIFO Position Report	Lists Series of Futures with positions in chronological order, contracts in positions.
MP60	FIFO Declaration vs. Open Position Report	Lists Clearing Member’s Futures positions and FIFO Long Positions declaration.
Options on Futures Expiry:		
MT51	Final Futures Daily Transaction Report	Lists trade details for all Futures and Options on Futures activity.
MX11	Futures Options Expiry Report	Lists all expiring Options on Futures with In-the-Money Options or Out-Of-the-Money Options amounts and Automatic Exercise positions for Expiry.
MX12	Futures Options Expiry Adjustments Report	Lists all trade adjustments and Open Positions changes on expiring Series only.
MX13	Futures Options Expiry Difference Report	Lists all reported changes, deletions and/or additions to exercises on the Futures Options Expiry Report (MX11).
Options Expiry (Friday Evening):		
MT01	Options Daily Transaction Report	Lists trade details for all expiring Option contracts for the Business Day.
MT02	Options Exercised and Assigned Report	Lists totals for Options Exercised Positions and Assigned Positions by Series of Options (including the debit and credit dollar values of the transactions).

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MX01	Expiry Report	Lists all expiring Options with In-the-Money Options or Out-of-the-Money Options amounts and Automatic Exercise positions for Expiry.
MX02	List of Expiry Adjustments Report	Lists all trade adjustments and Open Positions changes on expiring Series of Options only.
MX03	Expiry Difference Report	Lists all reported changes, deletions and/or additions to exercises on the Expiry Report.
OTCI Expiry:		
MX01	Expiry Report	Lists all expiring Options with In-the-Money Options or Out- of-the-Money Options amounts and Automatic Exercise positions for Expiry.
Business Day following Expiry:		
MP11	Expired Options Positions Report	Lists the Clearing Member's balance of expired Options positions following the Friday Expiry process.
MP12	Expired Futures Options Positions Report	Lists the Clearing Member's balance of expired Futures Options positions following the Friday Expiry process.



SECTION 4 TRADE PROCESSING

INTRODUCTION

All Exchange Transactions are processed electronically. In all cases both the selling and buying trade data is sent to the relevant Exchange's electronic trading system, which then transmits the matched trades to CDCC. The CDCC Clearing Application verifies the trade information and, if incorrect, rejects it for correction and resubmission. If the trade information is valid, the Clearing Member's Open Positions are immediately updated. The Exchange Transaction is reported on the Options Daily Transaction Report (MT01) or on the Final Futures Daily Transaction Report (MT51), as the case may be.

OTCI Transactions (other than Fixed Income Transactions) are also submitted electronically. Clearing Members submit their individual trade details onto the trade capture screens of Converge, which will match, validate and confirm the transactional details to the submitting Clearing Members. OTCI Options are reported on the Options Daily Transaction Report (MT01). No corrections will be permitted for OTCI Transactions after CDCC issues a Trade Confirmation.

Fixed Income Transactions will be transmitted through the CDS trade matching facility routing matched trades to CDCC.

Fixed Income Transactions are reported on the Fixed Income CSD Information Report (MT71).

The SGC Repurchase Transactions will be automated through CCMS. The SGC Repurchase Transaction will be reported by CDCC to the SGC Clearing Members in report MA30.

Proprietary Swap Transactions will be submitted electronically through the TRS Portal, a web interface of the CDCC Clearing Application, which will match, validate and confirm the transactional details to the submitting Clearing Members. A Bilateral Swap Transaction is automatically novated to CDCC upon validation and confirmation by CDCC in accordance with its Proprietary Swap Clearing procedures. No corrections will be permitted for Proprietary Swap Transactions after CDCC issues a Proprietary Swap Transaction confirmation. To correct Proprietary Swap Transactions, Clearing Members must terminate the applicable Proprietary Swap Transactions and submit a new Bilateral Swap Transaction for validation and confirmation.

Proprietary Swap Transactions are reported on the Total Return Swap Transaction Report (MT85).

The reports referred to herein are available for SFTP Downloads on the morning of the Business Day after Transactions are submitted for clearing to CDCC. In accordance with the Rules, Clearing Members must verify that such reports are correct.



TRADE PROCESSING

EXCHANGE TRANSACTIONS (OPTIONS AND FUTURES)

Positions of each Clearing Member are carried by CDCC for Client Account(s), Firm Account(s) and Multi-Purpose Account(s), each of which is maintained separately. CDCC supplies reports for each account.

Such separation requires that each Clearing Member designate whether a Transaction is submitted for a “Client”, “Firm” or “Multi-Purpose” when submitting a Transaction for clearing. Furthermore, if separate sub-accounts are maintained for each account type, each Transaction must be coded to indicate the appropriate sub-account information.

It is required that a Closing Transaction for a Client Account be designated as such on the trade input. Such designation is not required for a Multi-Purpose Account or a Firm Account, as CDCC carries net position records in the Open Position File for each of these accounts.

All Transactions for a Client Account which are not specifically designated as Closing Transactions shall be processed by CDCC as Opening Transactions. Opening Purchase Transactions increase the Long Position and Opening Writing Transactions increase the Short Position, in the particular Series of Options involved, as reported in the Clearing Member's Client Account. Opening Buy Transactions increase the Long Position and Opening Sell Transactions increase the Short Position, in the particular Series of Futures involved, as reported in the Clearing Member's Client Account.

Conversely, all Transactions designated as Closing Transactions decrease the Short Position and Long Position, respectively, for the particular Series of Options or Series of Futures in the reporting Clearing Member's Client Account. The CDCC Clearing Application verifies that all the Closing Transactions are valid and if the volume of a Closing Transaction exceeds the Open Position, the CDCC Clearing Application will reject it and replace it by an Opening Transaction for the entire volume.

The designation of a Transaction as “opening” or “closing” can be modified by the Close of Business.

CDCC maintains both the Long Position and the Short Position for each Series of Options and Series of Futures for Client Accounts but only maintains a net Long Position or net Short Position for each Series of Options and Series of Futures for Multi-Purpose Accounts and Firm Accounts.



TRADE PROCESSING

FIXED INCOME TRANSACTIONS

Positions of each Clearing Member are carried by CDCC for Client Account(s), Firm Account(s) and Multi-Purpose Account(s), each of which is maintained separately. CDCC supplies reports for each account.

Such separation requires that each Clearing Member designate whether a Transaction is submitted for a “Client”, “Firm” or “Multi-Purpose” when submitting a Transaction for Clearing. Furthermore, if separate sub-accounts are maintained for each account type, each Transaction must be coded to indicate the appropriate sub-account information.

All Repurchase Transactions and Cash Buy or Sell Trades must be submitted for clearing to CDCC through the CDS trade matching facility routing matched trades to CDCC.

Once a Repurchase Transaction or Cash Buy or Sell Trade is received by CDCC, a variety of validations will occur. These validations ensure that all transactional details match and CDCC does not accept any Repurchase Transaction or Cash Buy or Sell Trade bearing attributes that are not acceptable for clearing.

Upon issuance of a Trade Confirmation by CDCC, the Repurchase Transaction or Cash Buy or Sell Trade is novated to CDCC, such that the original Repo 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 CDCC and one between the Buyer and CDCC.

PROPRIETARY SWAP TRANSACTIONS

Bilateral Swap Transactions submitted by each Clearing Member and validated by CDCC are novated to CDCC and the resulting positions are carried in the applicable Clearing Member’s Firm Accounts as designated by each applicable Clearing Member at the time of submission of the Bilateral Swap Transaction for Proprietary Swap Clearing via the TRS Portal.

CDCC requires all Economic Terms of Bilateral Swap Transactions to be provided in order to perform its validations and to proceed with matching.

CDCC will perform the following validations before accepting a Bilateral Swap Transaction for clearing:

1. Counterparty eligibility validation;
2. TRS Equity Leg eligibility validation;
3. TRS Floating Leg eligibility validation;
4. Notional amount validation;
5. Maturity validation;
6. CFTC Requirement Validation.

More specifically, for TRS Equity Leg eligibility, only TRS Eligible Baskets or TRS Eligible Indices are accepted for Proprietary Swap Transaction submission.

CDCC will confirm via the TRS Portal to counterparties the status of the Proprietary Swap Transaction, their details or if there is a reject and request correction. If there are Proprietary Swap Transactions still not matching at around 3:15 pm a notification would be sent to inform the corresponding Clearing Members.



SECTION 5 OPEN POSITIONS

INTRODUCTION

Having accepted a Transaction, the next step in the CDCC Clearing Application is the determination of the Open Position. Each Clearing Member can view all the information related to their accounts on the Open Position File which records the open Long Position and Short Position for each Series of Options and Series of Futures, OTCI and Fixed Income Transactions for each account type and, updates the information as each Transaction is accepted.

Each Clearing Member is responsible for reconciling the information recorded on the Open Position File and all relevant reports issued by CDCC against their internal records. Careful attention must be paid to account designation and whether the Transaction is coded as “opening” or “closing” in the relevant file or report. Reports are available for SFTP Download as per Section 2 of this Operations Manual.

Open Interest is updated automatically as each Transaction, Exercise Notice and Tender Notice is processed.

ADJUSTMENTS OF OPEN POSITIONS

GENERAL

Occasionally the need will arise to adjust an already processed Transaction, other than a Proprietary Swap Transaction. In such cases, the adjustment will affect the Clearing Member's Open Position accordingly. For example, an adjustment designed to change the original Opening Buy Transaction (or Opening Purchase Transaction) to a Closing Buy Transaction (or Closing Purchase Transaction) will result in a decrease in the Long Position in the Series of Futures or Series of Options by the volume of the original Transaction. Any Settlement of Gains and Losses (or Premium) adjustments will be shown as adjustments on the relevant report.

Generally this situation will occur when:

1. The transactional details were incorrectly recorded, e.g. Clearing Member number, price, series and volume.
2. Information pertaining to only one side of the Transaction such as the opening/closing or account designation was erroneously reported on the original trade.
3. The source document of the relevant Exchange was input incorrectly.
4. Transfer of Open Positions from one account to another account of a Clearing Member.
5. Transfer of Open Positions from an account of one Clearing Member to an account of another Clearing Member.

OPEN POSITIONS

Types of Adjustments

The following adjustments are acceptable for Exchange Transactions and OTCI (other than Fixed Income Transactions):

1. Same Day Trade Corrections (T). Same day trade corrections are only permitted on account type, sub-account designation and opening/closing and no corrections are permitted on OTCI Transactions after a Trade Confirmation has been issued by CDCC.
2. Trade Date + 1 Corrections (T+1). Modifications of any type are subject to approval by the relevant Exchange and no corrections permitted on OTCI Transactions.
3. Open Position Changes. For OTCI Transactions, these will be performed through the Position Transfer function of the CDCC Clearing Application. Note: there is a Position Transfer fee per contract.
4. Position Transfers. Specific function of the CDCC Clearing Application to move positions from one Clearing Member to another or between accounts of a same Clearing Member on a post trade basis. Note: there is a Position Transfer fee per contract.
5. Standard vs Mini Offset. Upon the receipt of a Request for Standard vs Mini Offset in the prescribed form, CDCC will offset (i) one or more existing Standard Contract Long Position(s) against the equivalent number of existing Mini Contract Short Positions (totalling the same quantity of the Underlying Interest in accordance with the ratio prescribed in the Contract Specifications of the Mini Contract) having the same Delivery Month and booked in the same Clearing Member's account, or (ii) a number of existing Mini Contract Long Positions against one or more Standard Contract Short Position(s) (totalling the same quantity of the Underlying Interest in accordance with the ratio prescribed in the Contract Specifications of the Mini Contract) having the same Delivery Month and booked in the same Clearing Member's account, based on the instructions provided in the Request for Standard vs Mini Offset. Such Long Positions and Short Positions shall be offset at the previous day's Settlement Price, with the effect of reducing the Open Positions that the Clearing Member has on the relevant Series of Futures in the relevant account. A Future may only be offset against a Future and an Option may only be offset against an Option.

Adjustments via the Gross Client Margin (GCM) Declaration File

Via submission of the GCM Declaration File, CDCC will perform a Position Change Submission ("GCM PCS") as part of the GCM Settlement Calculation. This will be performed on the CDCC Book Positions, to align the CDCC Open Positions with the Open Positions declared by the Clearing Member for (i) each Series of Futures and Futures Options, and (ii) for each client declared in the GCM Declaration File.

The position adjustment can only be performed if the CDCC net position (CDCC Long Position minus CDCC Short Position) is equal to the GCM declared net position (GCM declared Long Position - GCM declared Short Position) on the same Series of Futures or Futures Options, for a specific client declared in the GCM Declaration File. If the condition is met, CDCC will adjust both the CDCC Long Position and CDCC Short Position to what was declared in the GCM Declaration File. In the event of discrepancies between the CDCC Book Positions and net GCM declared positions, no position adjustment will be performed and the undeclared positions will be treated separately (see Additional Margin for Undeclared GCM Position Risk in the Risk Manual for more details).

OPEN POSITIONS

Clearing Members may make use of the GCM Position Adjustment availability window to submit their GCM Declaration File to assess their declared positions with the CDCC Book Position. Clearing Members are able to submit additional GCM Declaration File(s) anytime before the GCM Position Adjustment availability window closes should they wish to make further adjustments. Only the last declared file will be considered for the GCM Settlement Calculation and therefore the GCM PCS.

Additionally, in the event a Clearing Member fails to submit their GCM Declaration File, CDCC will use the previous Business Day's GCM Declaration File. While this mitigates the impact of having all the positions as undeclared positions and margined separately, changes in positions that occurred on the day of the missed declaration may result in undeclared positions. If the GCM Declaration File is not received for a second consecutive Business Day (or any following Business Days), CDCC will not use the previous GCM Declaration File and will treat all GCM client positions as undeclared positions in a separate Risk Account.

RESET and SWAP AMENDMENTS TO PROPRIETARY SWAP TRANSACTIONS

Pre-Agreed Automatic Resets

Clearing Members can agree, as part of the TRS Economic Terms of a Proprietary Swap Transaction, for the TRS Floating Rate and TRS Floating Notional Amount of a Proprietary Swap Transaction to be automatically reset on each TRS Floating Rate Reset Date and TRS Floating Notional Reset Date, respectively.

The following pre-established resets shall take effect on each TRS Floating Rate Reset Date and TRS Floating Notional Reset Date, as applicable:

1. **TRS Floating Notional Amount reset:** If agreed upon by the parties to a Proprietary Swap Transaction as part of the TRS Economic Terms, on each TRS Floating Notional Amount Reset Date applicable for the Proprietary Swap Transaction, the notional amount of the Proprietary Swap Transaction over which it will calculate the TRS Floating Amount of the Proprietary Swap Transaction will be reset thus affecting the Proprietary Swap Transaction details. The new effective TRS Floating Amount on each such reset date of the Proprietary Swap Transaction will be equal to the TRS Equity Notional Amount calculated at the end of the day. This reset frequency can be fixed, daily and monthly, in accordance with the applicable convention specified in the TRS Economic Terms and calculated under Section D-806.
2. **TRS Floating Rate reset:** If agreed upon by the parties to a Proprietary Swap Transaction as part of the TRS Economic Terms, the TRS Floating Rate will be reset on each TRS Floating Rate Reset Date using the new determined rate. This reset frequency will be fixed, daily, or monthly, in accordance with the applicable convention specified in the TRS Economic Terms and calculated under Section D-806.

Requests to Amend Existing Proprietary Swap Transactions

A request to amend a Proprietary Swap Transaction is subject to approval by the Corporation and both Clearing Members holding opposite positions, except if, in the case of termination, a unilateral right to terminate was agreed by the parties as part of the TRS Economic Terms. A Clearing Member must submit a request through the TRS Portal and the Clearing Member holding the opposite position must either accept or reject the request. A request that has not been confirmed by the specified time will not be completed and the Proprietary Swap Transaction will remain unamended.

OPEN POSITIONS

Notification of all amendments must be completed prior to the time specified in Section 2 of this Operations Manual. All completed amendments are processed when they have been verified and validated by CDCC pursuant to Section D-806 of the Rules. For the avoidance of doubt, final approval of all amendments and terminations remain subject to CDCC discretion, including rejection of Swap Amendments that do not satisfy the CFTC Requirement Validation. Further, no material economic value will be agreed or exchanged through the TRS Portal or otherwise on CDCC's platform.

The following negotiable **Swap Amendments** submitted by Clearing Members are supported by CDCC:

1. **Spread:** A party to a Proprietary Swap Transaction can request a change to the Spread by communicating the new spread amount to CDCC. The request is subject to CDCC validation and must be approved by the opposite Clearing Member. The Spread can be amended monthly or quarterly, provided such day is a Swap Business Day, subject to the applicable cut-off time.
2. **Floating Rate Option:** A party to a Proprietary Swap Transaction can request a change to the Floating Rate Option by communicating the new Floating Rate Option to CDCC. The request is subject to CDCC validation and must be approved by the opposite Clearing Member. The Floating Rate Option can be amended on the Floating Rate Reset Date applicable to such Proprietary Swap Transaction, subject to the applicable cut-off time.
3. **TRS Equity Notional Amount upside:** A party to a Proprietary Swap Transaction can request an upside of the TRS Equity Notional Amount by communicating the new amount to CDCC. The request is subject to CDCC validation and must be approved by the opposite Clearing Member. TRS Equity Notional Amount changes can be entered on any Swap Business Day, subject to the applicable cut-off time.
4. **Early termination:** A Clearing Member party to a Proprietary Swap Transaction can request to early terminate a Proprietary Swap Transaction by making a request to modify the TRS Maturity Date. The request is subject to CDCC validation and must be approved by the opposite Clearing Member, unless a unilateral right to terminate exists for this Proprietary Swap Transaction. The request can be entered on any Swap Business Day, subject to the applicable cut-off time.
5. **Early termination & replicate:** A Clearing Member party to a Proprietary Swap Transaction can request to early terminate a Proprietary Swap Transaction by making a request to modify the TRS Maturity Date. The request is subject to CDCC validation and must be approved by the opposite Clearing Member, unless a unilateral right to terminate exists for this Proprietary Swap Transaction. The request can be entered on any Swap Business Day, subject to the applicable cut-off time. The replicate functionality allows both Clearing Members to terminate the existing Proprietary Swap Transactions and enter into new Proprietary Swap Transactions.

Corporate Actions

In case of a TRS Corporate Action event affecting a TRS Basket Share, Proprietary Swap Transactions and relevant TRS Basket Share(s) in the Eligible Baskets will be amended by the Corporation in accordance with Sections D-807 through D-814, as applicable, without consent or action by any other party.

REPORTING OF PROPRIETARY SWAP TRANSACTIONS

The Corporation shall report required trade information pertaining to (i) the Bilateral Swap Transaction and (ii) the two Proprietary Swap Transactions resulting from a Bilateral Swap Transaction to the CFTC-registered Swap Data Repository ("SDR") or to the recognized or designated trade repository ("TR"), as



OPEN POSITIONS

applicable, in each case, where the relevant Bilateral Swap Transaction was originally reported pursuant to Part 45 of the CFTC's Regulations or pursuant to applicable Canadian over-the-counter derivatives trade reporting rules. Clearing Members shall not make duplicative reports for the Bilateral Swap Transaction and the Proprietary Swap Transactions to an SDR or TR and hereby delegate the responsibility for such trade reporting of the Bilateral Swap Transaction to the Corporation.



Section 6 EXERCISES, TENDERS, ASSIGNMENTS, DELIVERIES AND MATURITIES

INTRODUCTION

OPTIONS

At the time of exercise of an Option, CDCC is responsible for issuing settlement records that will facilitate the delivery of the Underlying Interest to the Clearing Member who chooses to exercise that Option (in case of the exercise of a Call Option) or the payment of the relevant Exercise Price (in the case of the exercise of a Put Option). When a Clearing Member exercises an Option, CDCC assigns the delivery obligation to a Clearing Member who is the writer of Options in the same Series of Options in any one of its Client Account(s), Firm Account(s), or Multi-Purpose Account(s).

Assignment is made specifically to one of these accounts by CDCC. If assignment is made to a Client Account, the Clearing Member is responsible for allocating it to a specific client. If assignment is made to a Multi-Purpose Account, the Clearing Member must allocate it to the specific Multi-Purpose Account designated by CDCC.

Delivery of the Underlying Interest and payment of the Exercise Price is to be effected by Clearing Members through the settlement method instructed by CDCC.

FUTURES

All Futures which have not been closed out by the last trading day will be marked-to-market up to and including the close of the last trading day. In addition, the seller of a Future must submit a Tender Notice in the Delivery Month in accordance with applicable Contract Specifications.

When a seller of a Future submits a Tender Notice to CDCC, CDCC assigns it to a Clearing Member which is the buyer of a Future in the same Series of Futures in any one of its accounts. Assignment is made specifically to one of these accounts by CDCC. If assignment is made by CDCC to a Client Account, the Clearing Member is responsible for allocating it to a specific client. If assignment is made to a specific Multi-Purpose Account, the Clearing Member must allocate it to the specific Multi-Purpose Account designated by CDCC.

PROPRIETARY SWAP TRANSACTIONS

The final TRS Net Settlement Amount cash payment will be calculated on the TRS Maturity Date and paid on the TRS Termination Date in accordance with the settlement process described in Section 7 of this Manual.

EXPIRY PROCEDURES

Operations Notices are sent to Clearing Members setting forth the expiry procedures and it is the responsibility of Clearing Members to ensure that they have adequate processes in place to meet requirements and timelines prescribed by CDCC.

OPTIONS

For all information pertaining to the Option expiry procedures, Clearing Members should refer to the Operational Notices which are issued prior to the Expiration Date.

CDCC's Responsibilities on Expiry Friday

1. Review/modify Underlying Interest prices and notify the Clearing Members of any changes.
2. Notify Clearing Members (via e-mail) of any changes in the Production Schedule.
3. Notify Clearing Members (via e-mail) of the status of expiry processes.



EXERCISES, TENDERS, ASSIGNMENTS, DELIVERIES AND MATURITIES

4. Assist Clearing Members.

Clearing Members' Responsibilities on Expiry Friday

1. Ensure that the staff responsible for expiry is familiar with all expiry procedures and processes.
2. Validate entries using the Inquiry Screens or the relevant reports:
 - a. Verify that all Open Positions and adjustments match internal records, enter any new Transaction or Open Position adjustments accordingly.
 - b. Verify that the number of Options that will be automatically exercised on Expiration Date are correct.
 - c. For any changes, indicate on the Expiry Response Screen under the "Override" column the total number of Options for each Series of Options to be exercised.
 - d. Verify any Out-of-the-Money Options or At-the-Money Options to be exercised and enter the number of Options under the "Override" column.
3. Validate changes using the reports and/or the on-line access to CDCC Clearing Application (in accordance with timeframes set forth in Section 2 of this Operations Manual).
4. If required, make any allowed modifications (in accordance with timeframes set forth in Section 2 of this Operations Manual).

Daily Expirations (other than Expiry Friday)

When CDCC receives Underlying Interests' closing and opening prices from the relevant Exchange, the prices are specified on the relevant Expiry Report and are used to determine the In-the-Money Options and the Out-of-the-Money Options.

Clearing Members have until the Close of Business on any Business Day up to the Expiration Date to submit an Exercise Notice with respect to American Style Options to CDCC. European Style Options can only be exercised on their Expiration Date.

OTCI Options can expire on any Business Day.

Typically, exercise instructions must be entered online on the CDCC Clearing Application by Clearing Members. However, if unavailable, the following manual process can be used to submit Exercise Notices to CDCC:

1. The proper CDCC Exercise Notice form must be used.
2. The form must be signed by an Authorized Representative of the Clearing Member.
3. The properly delivered Exercise Notice will be accepted at any CDCC office.
4. The Exercise Notice must be properly delivered by five minutes before Close of Business.

EXERCISES, TENDERS, ASSIGNMENTS, DELIVERIES AND MATURITIES

5. The Clearing Member staff who deliver the Exercise Notice must be available until CDCC processes the exercise.

The CDCC Clearing Application will ensure that there are sufficient Option Open Positions of the relevant Series of Options in the relevant account of the Clearing Member for exercising the relevant Exercise Notice; if not, CDCC will reject the Exercise Notice. If there are sufficient Option Open Positions, the Clearing Member's Long Position is immediately reduced by the number of Option Open Positions exercised.

AN EXERCISE NOTICE CAN BE CANCELLED UNTIL CLOSE OF BUSINESS ON THE DAY IT IS SUBMITTED.



EXERCISES, TENDERS, ASSIGNMENTS, DELIVERIES AND MATURITIES

OPTIONS

Exercises

Delivery and payment on Exercised Positions are due on the Exercise Settlement Date.

Until Exercise Settlement Date, CDCC continues to require sufficient Margin to ensure that, if a Clearing Member defaults, any Exercise Notice submitted by it or assigned to it, as the case may be, will be completed.

Exercised Positions and Assigned Positions are reported to Clearing Members through relevant reports listed in Section 3 of this Operations Manual.

Assignments

After the Close of Business on any Business Day on which an Exercise Notice is submitted to CDCC, assignment of such Exercise Notice is made on a random selection basis, in which each account of a Member is treated separately. The reason for the separation is to ensure that each Clearing Member's Client Account(s), Firm Account(s), and Multi-Purpose Account(s) have the same probability of being assigned Exercise Notices. When a Clearing Member is assigned an Exercise Notice for a given account (e.g. the Firm Account) it may not allocate that assignment to another account (e.g. a Client Account).

An attempt will be made by CDCC to assign an Exercise Notice for more than 10 Options contracts in blocks not exceeding 10 contracts in each Series of Options.

Exercise Notices assigned to a Clearing Member's Client Account shall be allocated by the Clearing Member to any of its clients based on any method which is equitable and consistent with the rules of the relevant Exchange.

Automatic Exercise - Options and Options on Futures

To safeguard Clearing Members from possible errors, CDCC has instituted an Automatic Exercise procedure for expiring Series of Options. In simple terms, all In-the-Money Options and Options on Futures over predetermined thresholds are automatically exercised by CDCC, unless Clearing Members instruct otherwise.

CDCC establishes predetermined thresholds and informs Clearing Members that every Option and Option on Future above that threshold will be automatically exercised. CDCC will not automatically exercise any At-the-Money Option. CDCC provides a method for Clearing Members to make changes to the Automatic Exercise function of the CDCC Clearing Application. This allows Clearing Members to either opt in or opt out of the Automatic Exercise with respect to the Options and Options on Future they hold. For example, a Member can choose not to exercise an Option that is above the predetermined threshold but to exercise another Option that is At-the-Money or Out-of-the-Money.

Exercised and Assigned Option Contracts

a. Exercised Positions

A Clearing Member who has exercised an Option has an obligation to either deliver the Underlying Interest (in the case of a Put Option) or pay the Exercise Price (in the case of a Call Option).

b. Assigned Positions



EXERCISES, TENDERS, ASSIGNMENTS, DELIVERIES AND MATURITIES

A Clearing Member who has been assigned an Exercise Notice has the obligation to pay the Exercise Price upon delivery of the Underlying Interest (in the case of a Put Option) or to deliver the Underlying Interest against payment (in the case of a Call Option).



EXERCISES, TENDERS, ASSIGNMENTS, DELIVERIES AND MATURITIES

FUTURES

Submission of Tender Notices

Tender Notices must be submitted before Close of Business during the relevant FIFO Period (which, subject to any contract adjustment by the relevant Exchange, shall be as follows):

CGB, CGF and CGZ	one Business Day preceding the first Business Day of the Delivery Month up to and including the last Business Day preceding the last Business Day of the Delivery Month.
LGB and MCX	before Close of Business on the last trading day.

All outstanding Short Positions in EMF, SXF, SXM, SCF, Sector Index Futures, Share Futures, and Options on Futures are automatically tendered on the last trading day, as per Contract Specifications, after Close of Business.

All outstanding Short Positions in COA and CRA are automatically tendered on the first Business Day following the last trading day, as per Contract Specifications, after Close of Business.

Assignment of Tender Notices

CDCC assigns all Tender Notices to open Long Positions on a random basis with the exception of the Government of Canada Bond Futures (CGB, CGF and CGZ). Assignments for the CGB, CGF and CGZ Futures are processed on a First In-First-Out (FIFO) basis.

Delivery of the Underlying Interest and payment of the Settlement Price is effected by Clearing Members as instructed by CDCC.

FIRST-IN-FIRST-OUT (FIFO) ASSIGNMENT PROCESS

Description of Procedures

The Delivery Months for the CGB, CGF and CGZ Futures contracts are March, June, September and December as prescribed by the relevant Exchange. When a Member submits a Tender Notice with respect to a Short Position, a Long Position is assigned on a First-In-First-Out (FIFO) basis. CDCC sends out an Operational Notice prior to each relevant FIFO Period to remind Clearing Members of the procedures involved.

On the sixth Business Day prior to the first Business Day of the Delivery Month, each Clearing Member holding Long Positions in the relevant Series of Futures must declare on the CDCC Clearing Application its Long Positions in chronological order for each of its accounts. The entries must include the date the position was opened, the number of contracts and the account. When CDCC assigns a Tender Notice, the Long Position with the oldest date will be assigned first and the Long Position with the most recent date will be assigned last.

During the FIFO Period, Clearing Members must ensure that they update their declarations on a daily basis before Close of Business.

FIXED INCOME TRANSACTIONS

CDCC acts as central counterparty to all Fixed Income Transactions that are submitted by Clearing Members to CDCC for clearing. All Fixed Income Transactions shall be submitted for clearing to CDCC through the CDS trade matching facility routing matched trades to CDCC. As a result of these Transactions



EXERCISES, TENDERS, ASSIGNMENTS, DELIVERIES AND MATURITIES

being novated to CDCC, CDCC will be either the buyer or the seller of all settlement records that are sent to the Central Securities Depository.

Various transmissions of settlement records will be sent by CDCC to the Central Securities Depository on a daily basis.

Same Day Transactions gross settlement records

For Same Day Transactions, two settlement records consisting of settlement instructions (Gross Delivery Requirements and Gross Payment Against Delivery Requirements) will be sent gross to the Central Securities Depository to be settled on a real-time basis throughout the day immediately after each Same Day Transaction is novated to CDCC until the Submission Cut-Off Time specified in Section 2 of this Operations Manual.

Forward Settlement Transactions and Futures Contracts on an Acceptable Security net settlement records
For Forward Settlement Transactions and Futures Contracts on Acceptable Securities, settling on the next Business Day, two settlement records consisting of net settlement instructions (Net Delivery Requirements and Net Payment Against Delivery Requirements) will be sent to the Central Securities Depository on a net basis at the Netting Cut Off Time specified in Section 2 of this Operations Manual for settlement on the next Business Day.

Morning Net DVP settlement process

In respect of any Pending Payment Against Delivery Requirements at the Morning Netting Cycle Timeframe specified in Section 2 of this Operations Manual, CDCC shall send new settlement records (Morning Net Payment Against Delivery Requirements) to the Central Securities Depository reducing any Pending Payment Against Delivery Requirements of a Clearing Member in favour of CDCC by any Pending Payment Against Delivery Requirements of CDCC in favour of the same Clearing Member. The Clearing Member or its Settlement Agent shall have sufficient funds in its CDS Funds Account 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 specified in Section 2 of this Operations Manual.

Afternoon net DVP settlement process

In respect of any Pending Settlement Requirements at the Afternoon Netting Cycle Timeframe specified in Section 2 of this Operations Manual, CDCC shall send new settlement records (Afternoon Net DVP Settlement Requirements) to the Central Securities Depository reducing any Pending Delivery Requirements of a Clearing Member in favour of CDCC by any Pending Delivery Requirements of CDCC in favour of the same Clearing Member in respect of the same Acceptable Security, and/or reducing any Pending Payment Against Delivery Requirements of a Clearing Member in favour of CDCC by any Pending Payment Against Delivery Requirements of CDCC in favour of the same Clearing Member. The Clearing Member, or its Settlement Agent, shall have sufficient funds and sufficient Acceptable Securities in its CDS Funds Accounts and CDS Securities Accounts to settle its Afternoon Net DVP Settlement Requirements by the End of Day DVP Settlement Time specified in Section 2 of this Operations Manual.

Delivery

Securities delivery against payment is effected on a DVP basis through the Central Securities Depository.

In the event of a failed or partial delivery, CDCC will take appropriate action in accordance with this Manual and Section A-804 of the Rules.

CDCC shall determine the net settlement instructions by Clearing Member, CUSIP/ISIN and Settlement Date for all Transactions comprised in the Forward Settlement Transactions netting process (as specified

EXERCISES, TENDERS, ASSIGNMENTS, DELIVERIES AND MATURITIES

in the above section entitled “Forward Settlement Transactions and Futures Contracts on an Acceptable Security net settlement records”) submitted to CDCC for clearing as of the Netting Cut Off Time. These settlement instructions shall be submitted to the relevant Central Securities Depository on a daily basis and in the form and settlement tranche acceptable to the Central Securities Depository for this purpose.

For Same Day Transactions, CDCC shall determine the gross settlement instructions (Gross Delivery Requirements and Gross Payment Against Delivery Requirements) by Clearing Member and the applicable CUSIP/ISIN, and submit such instructions to the relevant Central Securities Depository (in the form and settlement tranche acceptable to such Central Securities Depository) immediately after each Same Day Transaction is novated to CDCC for real-time settlement. Notwithstanding the foregoing, at the Morning Netting Cycle Timeframe, CDCC shall cancel previously issued Pending Payment Against Delivery Requirements and replace them by Morning Net Payment Against Delivery Requirements by Clearing Member (as specified in the above section entitled “Morning net DVP settlement process”).

In the event of a Failed Delivery for a particular settlement tranche to a Net Delivery Requirement or to an Afternoon Net DVP Settlement Requirement consisting of an obligation to deliver Acceptable Securities by the End of Day DVP Settlement Time specified in Section 2 of this Operations Manual, CDCC shall, on a best efforts basis, attempt to coordinate a partial delivery among those Receivers of Securities for that particular settlement tranche of the relevant Acceptable Security. In the event that no partial settlement is possible, the settlement tranche will be included in the Rolling Delivery Obligation of the failing Clearing Member and CDCC shall re-attempt settlement of the failed settlement tranche on the next Business Day. In the case of a Failed Delivery with respect to a Gross Delivery Requirement resulting from a Same-Day Transaction submitted after the Afternoon Netting Cycle Timeframe and before the Submission Cut-Off Time to be settled by the End of Day DVP Settlement Time, CDCC 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.

In the event of a Failed Payment Against Delivery at the Morning Net DVP Settlement Timeframe specified in Section 2 of this Operations Manual, CDCC shall impose a fine on the Clearing Member corresponding to the charges which are levied on CDCC for the usage of the CDCC Daylight Credit Facility as a result of this Failed Payment Against Delivery. If the Clearing Member still does not have sufficient funds in its CDS Funds Account or that of its Settlement Agent at the Central Securities Depository to settle the relevant Morning Net Payment Against Delivery Requirement, or in the amount of the CDCC Daylight Credit Facility (whichever is less), by 11:00 a.m., the Clearing Member shall be deemed a Non-Conforming Member, in addition to any other remedies that CDCC may apply to such situation in accordance with Subsection A-806(1) of the Rules.

In the event of a Failed Payment Against Delivery at the End of Day DVP Settlement Time specified in Section 2 of this Operations Manual, the Clearing Member shall be deemed a Non-Conforming Member and shall be required to pay to CDCC any charges which are levied on CDCC for the overnight financing of this Failed Payment Against Delivery, in addition to any other remedies that CDCC may apply to such situation in accordance with Subsection A-806(2) of the Rules. CDCC will assist the Clearing Member to remedy the situation so that the Clearing Member can maintain its conforming status. As DVP is not available after the End of Day DVP Settlement Time at the Central Securities Depository (CSD), the Clearing Member must deliver the funds (or acceptable equivalent) outside of the CSD’s systems to CDCC prior to CDCC delivering the securities via the CSD.

Buy-In Process (excluding Fixed Income Variation Margin Buy-Ins)

For a Buy-In in respect of the Acceptable Security, the following applies. As set forth in Subsection A-804(3) of the Rules, CDCC may effect a Buy-In transaction on its own initiative or pursuant to a formal

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request by a Receiver of Securities affected by a Failed Delivery by purchasing the missing quantity of the relevant Acceptable Securities on the open market.

When initiated by a Receiver of Securities, the Buy-In process shall be as follows:

1. The Receiver of Securities who wants to initiate a Buy-In must send to CDCC the appropriate Buy-In Scan Form (which is accessible on CDCC's Secured Website) duly completed, with the following information:
 - a. Clearing Member's Name;
 - b. Clearing Member's Number;
 - c. The Acceptable Security (ISIN) involved;
 - d. The total quantity of the Failed Delivery;
 - e. The quantity requested in the Buy-In;
 - f. The Buy-In delivery date, which shall be the current Business Day + not less than one (1) complete Business Day.
2. The Buy-In Scanned Form must be submitted to CDCC in the prescribed format and signed by an Authorized Representative of the Clearing Member.
3. Upon receiving the duly completed Buy-In Scan Form from a Receiver of Securities, CDCC will work with the Provider(s) of Securities responsible for the Failed Delivery in order to validate if the delivery can be made within the number of Business Days specified in the Buy-In Scan Form (the "Buy-In Notice Delay").
4. At the expiry of the Buy-In Notice Delay, if the Provider(s) of Securities have not delivered the relevant Acceptable Securities, CDCC will initiate a cash trade on the open market.
5. Once delivery is received by CDCC on the cash trade, CDCC will deliver the Acceptable Securities to the Receiver of Securities that requested the Buy-In transaction.
6. All fees incurred to CDCC, including all costs with respect to the Buy-In transaction shall be charged to the Provider(s) of Securities responsible for the Failed Delivery. Such fees will be included on the Monthly Clearing Fees Invoice (MB01) of the second Business Day of each month as a separate pay figure, payable to CDCC on the 5th Business Day of each month through LVTS or any other payment method approved by CDCC.

SGC Repurchase Transactions

An SGC Repurchase Transaction is a bilateral repurchase agreement originally entered into between an SGC Clearing Member and the Trust which is submitted to CDCC for clearing during the SGC Repurchase Transaction Submission Period, in which the SGC Clearing Member agrees to sell SGC Securities in a particular SGC Securities Basket to the Trust at a Purchase Price to be paid by the Trust to the SGC Clearing Member, with a simultaneous agreement by the SGC Clearing Member to purchase the SGC Securities or Equivalent SGC Securities in a particular SGC Securities Basket from the Trust at the Repurchase Date and by the SGC Maturity Settlement Time, at a Repurchase Price to be paid by the SGC Clearing Member to the Trust. CDCC acts as central counterparty for all SGC Repurchase Transactions:



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CDCC accepts and novates the bilateral repurchase transaction and its terms and conditions are replaced with the SGC Repurchase Transaction terms and conditions set out in Rule D-7 of the CDCC Rules during the clearing process.

All defined terms used in the foregoing paragraph and not defined herein are defined in Rule D-7 of the CDCC Rules.

SECTION 7 SETTLEMENT

INTRODUCTION

CDCC provides the mechanism for a single cash settlement in respect of Core Products with respect to amounts which are not settled through a Central Securities Depository due by a Clearing Member to CDCC and by CDCC to such Clearing Member on a daily basis, as prescribed in Paragraph A-801(2)(a) of the Rules. Clearing Members are able to make a single payment to CDCC or receive a single payment from CDCC that represents the net value of their purchases, sales, gains and losses and, on a monthly basis, clearing fees. Additionally, the CDCS incorporates the amounts due from the Clearing Members for Margin (excluding for the (Fixed Income) Net Variation Margin Requirement) and the exercise/assignment Settlement Amounts of cash settled Transactions. Settlements in different currencies will be processed and settled separately.

Settlement of trading in a given currency is kept separate throughout the clearing procedure. All payments in the Canadian currency to and from CDCC are collected via an irrevocable payment processing system, known as the Large Value Transfer System (LVTS), or any other payment method approved by CDCC. Any US dollar payments are collected via a payment processing system known as Financial Electronic Data Interchange (FEDI). As described in the Risk Manual, the amount of Margin due by a Clearing Member on a given day is computed on the basis of that day's Open Positions shown on the relevant report.

All TRS Net Settlement Amounts will be processed separately from all other settlements described above. All Swap Clearing Members must have a US dollar account operational on any Swap Business Day to pay and receive all TRS Net Settlement Amounts and all deposits to the Swap Tranche of the Clearing Fund.

SETTLEMENT CALCULATION

The calculation of a Clearing Member's Net Daily Settlement amount is based on Transactions (including adjustments, exercises, tenders and assignments but not including Proprietary Swap Transactions) and Core Margin requirements and, on a monthly basis, clearing fees.

The Net Daily Settlement amount for each Clearing Member is determined in the following manner:

- (i) The amount of Core Margin required for the applicable Margin Fund Accounts are compared with Core Margin Deposits made by the Clearing Member for such accounts.
- (ii) The Premiums, Futures Settlement of Gains and Losses, cash settled exercise/assignment Settlement Amounts and cash adjustments for each account type (Client Account(s), Firm Account(s) and Multi-Purpose Account(s)) are netted to a single pay or collect figure.

All cash settlements to CDCC are to be made to CDCC's settlement account at the Bank of Canada, or to any other account of CDCC with a Schedule I bank, as designated by CDCC.

For each Swap Clearing Member, its TRS Net Settlement Amount is calculated in accordance with Subsection D-815(3) of the Rules. Payments of the TRS Net Settlement Amount will only occur on a Swap Business Day. All TRS Net Settlement Amounts payable to CDCC are to be paid in USD to CDCC's Designated Financial Institution account.

TRS Margin processing description can be found as set forth in Section 8 of this Operations Manual under Margin Processing.

FINES

SETTLEMENT

CDCC applies fines with regards to late payments to deter Clearing Members from being late in the performance of their payment obligations.

End of Day Settlement

Payments or deliveries of end of day settlement in respect of Core Products (Futures mark-to-market, Premiums, Core Margin Shortfalls, etc.) must be received by 8:15 a.m. the next Business Day, for each Clearing Member (excluding LCMs) and 9:00 a.m. for each LCM.

Payments or deliveries for TRS Net Settlement Amounts and Required Swap Margin must be received by 9:00 a.m. the next Swap Business Day for each Clearing Member.

If a payment is late, CDCC will notify the Clearing Member that it is being fined. The fine structure is as follows:

Based on a rolling thirty days - if there has been a prior occurrence within the preceding thirty days, it is the second occurrence.

The fine schedule described below is subject to the Escalation Procedure applicable for operational issues detailed in Section 11 of this Manual.

For Clearing Members not in a Tri-Party Agreement

First occurrence of a late payment:

- if CDCC receives the payment in its Bank of Canada account by 7:55 a.m. the next Business Day, there will be no fine.
- if the payment is received by 8:30 a.m. the next Business Day, CDCC will impose a \$1,000 fine.
- if the payment is received by 8:59 a.m. the next Business Day, CDCC will impose a \$2,500 fine.
- if the payment is not received by 9:00 a.m. the next Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

On the second or more occurrences of a late payment:

- if CDCC receives the payment in its Bank of Canada account by 7:55 a.m. the next Business Day, CDCC will impose a \$1,000 fine
- if the payment is received after 7:55 a.m. but before 8:30 a.m. the next Business Day, CDCC will impose a \$5,000 fine.
- if the payment is received by after 8:30 a.m. but before 8:59 a.m. the next Business Day, CDCC will impose a \$10,000 fine.
- if the payment is not received by 9:00 a.m. the next Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

For Clearing Members (excluding LCMs) in a Tri-Party Agreement - Margin Shortfalls only

First occurrence of a late payment or delivery:

- if CDCC receives the payment in its Bank of Canada account or if CDCC has evidence that the securities have been received in the appropriate account by 7:55 a.m. the next Business Day, there will be no fine.
- if the payment or delivery is received by 8:30 a.m. the next Business Day, CDCC will impose a \$1,000 fine.
- if the payment or delivery is received by 8:59 a.m. the next Business Day, CDCC will impose a \$2,500 fine.
- if the payment or delivery is not received by 9:00 a.m. the next Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

On the second or more occurrences of a late payment or delivery:

- if CDCC receives the payment in its Bank of Canada account or if CDCC has evidence that the securities have been received in the appropriate account by 7:55 a.m. the next Business Day, CDCC will impose a \$1,000 fine
- if the payment or delivery is received after 7:55 a.m. but before 8:30 a.m. the next Business Day, CDCC will impose a \$5,000 fine.
- if the payment or delivery is received by after 8:30 a.m. but before 8:59 a.m. the next Business Day, CDCC will impose a \$10,000 fine.
- if the payment or delivery is not received by 9:00 a.m. the next Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

For LCMs - Margin Shortfalls only

First occurrence of a late payment or delivery:

- if CDCC receives the payment in CDCC's Bank of Canada account designated for such Limited Clearing Member or if CDCC has evidence that the securities have been received in the appropriate account by 9:10 a.m. the next Business Day, there will be no fine.
- if the payment or delivery is received by 9:45 a.m. the next Business Day, CDCC will impose a \$1,000 fine.
- if the payment or delivery is received by 10:14 a.m. the next Business Day, CDCC will impose a \$2,500 fine.
- if the payment or delivery is not received by 10:15 a.m. the next Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

On the second or more occurrences of a late payment or delivery:

SETTLEMENT

- if CDCC receives the payment in CDCC's Bank of Canada account designated for such Limited Clearing Member or if CDCC has evidence that the securities have been received in the appropriate account by 9:10 a.m. the next Business Day, CDCC will impose a \$1,000 fine
- if the payment or delivery is received after 9:10 a.m. but before 9:45 a.m. the next Business Day, CDCC will impose a \$5,000 fine.
- if the payment or delivery is received by after 9:45 a.m. but before 10:14 a.m. the next Business Day, CDCC will impose a \$10,000 fine.
- if the payment or delivery is not received by 10:15 a.m. the next Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

For Clearing Members - late payment of TRS Net Settlement Amount

First occurrence of a late payment:

- if CDCC receives the payment in its the designated account by 9:15 a.m. the next Swap Business Day, there will be no fine.
- if the payment is received by 9:30 a.m. the next Swap Business Day, CDCC will impose a USD \$1,000 fine.
- if the payment is not received by 9:30 a.m. the next Swap Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

On the second or more occurrences of a late payment:

- if CDCC receives the payment in the designated account by 9:15 a.m. the next Swap Business Day, CDCC will impose a USD \$1,000 fine
- if the payment is received by 9:30 a.m. the next Swap Business Day, CDCC will impose a USD \$5,000 fine.
- If the payment is not received by 9:30 a.m. the next Swap Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

SGC Securities Adjustment Threshold

The Corporation may determine, from time to time and for the purpose of Section D-707 of the Rules, the amount of a minimum threshold to be applied to SGC Securities Adjustment once calculated by the Corporation.

If the SGC Securities Adjustment calculated pursuant to Section D-707 of the Rules is equal to or exceeds the threshold, the Corporation may require the SGC Clearing Member to make available SGC Securities for the entire amount of the SGC Securities Adjustment (disregarding the threshold) within the given timeline.

If the SGC Clearing Member does not make available sufficient SGC Securities for sale in the entire amount of the SGC Securities Adjustment within the given timeline, CDCC may impose the following fines:

SETTLEMENT

- if the sale of the intra-day SGC Securities Adjustment is made more than 2 hours after but less than 2 hours and 15 minutes from notification, CDCC may impose a \$500 fine;
- if the sale of the intra-day SGC Securities Adjustment is made more than 2 hours and 15 minutes but less than 2 hours and 30 minutes from notification, CDCC may impose a \$1,000 fine.
- If at the end of day, an SGC Securities Adjustment is made more than 15 minutes, but less than 30 minutes after the SGC Securities Adjustment Settlement Time, CDCC may impose a \$500 fine;
- If at the end of day, an SGC Securities Adjustment is made more than 30 minutes after the SGC Securities Adjustment Settlement Time, CDCC may impose a \$1,000 fine.

If the SGC Clearing Member does not make available sufficient SGC Securities for sale in the entire amount of SGC Securities Adjustment, the Corporation may take any action or measure provided in Section D-707(4).



SECTION 8 MARGIN PROCESSING - SUPPLEMENTAL LIQUIDITY FUND

MARGIN FUND ACCOUNTS

Margin Fund Accounts are the CDCS records provided to each Clearing Member containing all Margin deposited or delivered by such Clearing Member to CDCC, in respect of such Clearing Member's Core Base Initial Margin (or Adjusted Core Base Initial Margin, as the case may be), TRS Base Initial Margin, Additional Margin for Market Liquidity Risk, Additional Margin for Specific Wrong-Way Risk, Additional Margin for Mismatched Settlement Risk, Additional Margin for Intra-Day Variation Margin Risk, Additional Margin for Unpaid Option Premium Exposure Risk, Additional Margin for Banking Holiday Risk, Additional Margin for Variation Margin Delivery Risk, Additional Margin for Capital Risk, Additional Margin for Uncovered Risk of Limited Clearing Members, Additional Margin for Intra-Day GCM Risk, Additional Margin for Undeclared GCM Positions Risk, Additional Margin for Dividend Payment Risk, Additional Margin for Stress Test Risk, Variation Margin for Options, and Variation Margin for Unsettled Items, in accordance with the Risk Manual and as set forth in Section 8 hereof.

In addition to the foregoing, an amount may be requested from a Clearing Member for the protection of the Corporation, Clearing Members or the investing public, in accordance with Section A-702 of the Rules.

Each Clearing Member must record in its Margin Fund Accounts any deposit or Asset delivered made to cover the shortfalls resulting from the requirements. Deposits or Assets delivered must be in the form of Eligible Collateral, as specified in the Risk Manual, in an amount sufficient, taking into account the market value and applicable haircuts as specified in Section A-707 of the Rules.

Excess

Any surplus amount from the Margin Fund Accounts (Firm, GCM Regime and Non-GCM Regime). Excess amounts from the GCM Regime Margin Account are determined on an end-of-day basis after the GCM Declaration File - end-of-day cut-off.

Deficit

Any shortfall amount from the Margin Fund Accounts. Deficits from the Clients' Margin Fund Accounts (GCM Regime and Non-GCM Regime) can be covered by any Firm Excess. Excesses from the GCM Margin Account cannot cover deficits of the Non-GCM Margin Account (and vice-versa) nor deficits from the Firm Margin Account.

TRS Margin Fund Accounts are subject to specific collateral eligibility hence any excesses are not eligible to cover deficits from other Margin Fund Accounts.

Withdrawals

Clearing Members may request to withdraw Excess, subject to applicable deadlines, as set forth in Section 2 of this Operations Manual. CDCC will respond within the specified time set forth in Section 2 and, on a best effort basis, approve the withdrawal in CDCC Clearing Application.

Substitutions

A Clearing Member may request to substitute a specific Asset previously deposited or delivered in the Margin Fund Accounts to the Corporation. The Clearing Member must first pledge equivalent securities/cash and withdraw the existing securities/cash subject to substitution. The value of the equivalent securities/cash so deposited or delivered must be equal to or in excess of the Assets being withdrawn, subject to applicable deadlines, as set forth in Section 2 of this Operations Manual.

CDCC verifies the validity of each Asset delivered or deposited made by Clearing Members and ensures that withdrawals of existing Assets subject to substitution do not create deficits in the Clearing Member's



MARGIN PROCESSING - SUPPLEMENTAL LIQUIDITY FUND

Margin Fund Accounts. CDCC will respond within the specified time set forth in Section 2 and, on a best effort basis, approve the substitution in CDCC Clearing Application.

Cash deposit

Cash deposited in the Margin Fund Accounts must be sent to the relevant CDCC bank account:

- For Core Products: CDCC's settlement account at the Bank of Canada, or to any other account of CDCC with a Schedule I bank, as designated by CDCC.
- For Proprietary Swap Transactions: all TRS Net Settlement Amounts payable to CDCC are to be made to CDCC's Designated Financial Institution.

After performing all the validation processes, CDCC confirms within the CDCC Clearing Application the Clearing Member's deposits and/or withdrawals.

Deposits, withdrawals and changes thereto will be reflected on the immediately following Business Day's Deposits and Withdrawals Report (MA01). In accordance with the Rules, any discrepancies that the Clearing Member notices against its own records should be reported to CDCC immediately.

Pledging (Securities / CDS)

Securities pledges in the Margin Fund Accounts in respect of Core Margin must be performed through CDSX in CDCC's account. The entries on the pledging screen of the CDCC Clearing Application are matched by CDCC to corresponding entries on the reporting system of the relevant Central Securities Depository.

In some cases, an exchange of document at a CDCC Office by the Clearing Member (accompanied by a screen print of the entry bearing the signature of an Authorized Representative of the Clearing Member) may be accepted by CDCC as constituting a physical deposit or withdrawal.

After performing all the validation processes, CDCC confirms within the CDCC Clearing Application the Clearing Member's deposits and/or withdrawals.

Deposits, withdrawals and changes thereto will be reflected on the immediately following Business Day's Deposits and Withdrawals Report (MA01). In accordance with the Rules, any discrepancies that the Clearing Member notices against its own records should be reported to CDCC immediately.

Pledging (Securities / Tri Party - Securities Account with an Approved Custodian)- Excluding Proprietary Swap Transactions

Subject to certain conditions, the Corporation may allow Clearing Members to pledge non-cash collateral for the purpose of meeting their Core Margin requirements pursuant to Rule A-7 (excluding (Fixed Income) Net Variation Margin Requirements and any other Core Margin which can otherwise only be cash settled) to a securities account maintained at a third party securities intermediary. The securities intermediary must enter into an Account Control Agreement with respect to the securities account and be an Approved Custodian, each as defined in the Rules.

Use of the Securities Account in respect of Core Margin

1. The securities account shall only be maintained by a securities intermediary which is an Approved Custodian, as defined in the Rules.
2. Any securities held in the securities account maintained by the Approved Custodian, in the name of the Clearing Member, shall be subject to an Account Control Agreement.



MARGIN PROCESSING - SUPPLEMENTAL LIQUIDITY FUND

3. The Account Control Agreement is a standard agreement that meets certain requirements, as prescribed in the Rules.
4. The securities account may not be used for (Fixed Income) Net Variation Margin Requirements or for settlement purposes.
5. The respective rights and obligations of the Clearing Member and CDCC with respect to the securities collateral held in the securities account are subject to the Rules, including:
 - a. All deposits, withdrawals and substitutions in the securities account are subject to the timeline described in Section 2 of this Manual and to the collateral policy described in Section 3 (Eligible Collateral) of the Risk Manual;
 - b. All deposits, withdrawals and substitutions made in the securities account shall also be entered in CDCC Clearing Application in accordance with the timeline described in Section 2 of this Manual and to the collateral policy described in Section 3 (Eligible Collateral) of the Risk Manual;
 - c. Any withdrawal of securities held in the securities account is subject to CDCC's approval. The withdrawal must be entered in CDCC Clearing Application by the Clearing Member. A withdrawal authorization form must be signed by an Authorized Representative of the Clearing Member and must be transmitted to CDCC. CDCC will then, within the specified time to respond to a withdrawal request specified in Section 2, sign and transmit the withdrawal authorization form to the Approved Custodian to proceed with the withdrawal;
 - d. Any substitution is subject to the deposit by the Clearing Member of the replacement securities in the securities account before the withdrawal of the replaced securities. Both the deposit and the withdrawal shall also be entered in CDCC Clearing Application by the Clearing Member. A substitution authorization form must be signed by an Authorized Representative of the Clearing Member and must be transmitted to CDCC. CDCC will then, within the specified time to respond to a substitution request specified in Section 2, sign and transmit the substitution authorization form to the Approved Custodian to proceed with both the deposit and the withdrawal.

Pledging Securities for Proprietary Swap Transaction activities through a TRS Designated Depository or TRS Designated Custodian

The Clearing Members may meet their TRS Margin requirements by pledging securities meeting CDCC's collateral eligibility rules for Proprietary Swap Transactions into CDCC's account at a TRS Designated Depository or **TRS Designated Custodian**. Transfers, withdrawals and changes thereto will be reflected on the Swap Business Day's deposits and withdrawals report (MA01). In accordance with the Rules, any discrepancies that the Clearing Member notices against its own records should be reported to CDCC immediately.

Pledging (Securities / Pledge Account with a TRS Designated Depository)

A pledge entry by, or on behalf of a Clearing Member into CDCC's pledge account at the TRS Designated Depository is automatically reflected in the CDCC Clearing Application. After performing its validation processes, CDCC confirms the Asset's eligibility and value into the CDCC Clearing Application.



MARGIN PROCESSING - SUPPLEMENTAL LIQUIDITY FUND

Pledging (Securities / Securities Account with a TRS Designated Custodian)

A pledge entry by Clearing Member into a securities account at the TRS Designated Custodian must be manually entered in the CDCC Clearing Application by the Clearing Member. CDCC will validate the pledge entry after confirming the Asset's eligibility in the TRS Designated Custodian account and then reflect the pledge Asset and value into the CDCC Clearing Application. The TRS Designated Custodian account may only be used for Eligible Collateral issued by the U.S. Government.

Intra-Day Margin Calls

CDCC encourages its Clearing Members to cover Intra-Day Margin Calls with collateral other than cash.

The fine schedule described below is subject to the Escalation Procedure applicable for operational issues detailed in Section 11 of this Manual.

Clearing Members (excluding LCMs) have one (1) hour from notification to cover an Intra-Day Margin Call. If the payment or delivery is late, the following fines shall apply:

- if the payment or delivery is received more than 1 hour after but less than 1 hour and 15 minutes from notification, CDCC will impose a \$500 fine.
- if the payment or delivery is received more than 1 hour and 15 minutes but less than 1 hour and 30 minutes from notification, CDCC will impose a \$1,000 fine.
- if the payment or delivery is not received by 1 hour and 30 minutes from notification, CDCC will deem the Clearing Member (excluding LCMs) a Non-Conforming Member.

LCMs have two (2) hours from notification or until such Settlement Time as may be provided in Section 2 to cover an Intra-Day Margin Call. If the payment or delivery is late, the following fines shall apply:

- if the payment or delivery is received more than 2 hours after but less than 2 hours and 15 minutes from notification, CDCC will impose a \$500 fine.
- if the payment or delivery is received more than 2 hours and 15 minutes but less than 2 hours and 30 minutes from notification, CDCC will impose a \$1,000 fine.
- if the payment or delivery is not received within 2 hours and 30 minutes from notification, CDCC will deem the LCM a Non-Conforming Member

Overnight Margin Calls

CDCC offers its Clearing Members two (2) ways to cover Overnight Margin Calls:

- Eligible currencies deposited through an approved bank;
- Securities pledged through CDS (see CDS document "PLEDGE AND SETTLEMENT PROCEDURES" Section 1.8).

MARGIN PROCESSING - SUPPLEMENTAL LIQUIDITY FUND

Clearing Members (excluding LCMs) have two hours from notification to cover an Overnight Margin Call. If the payment or delivery is late or insufficient, the Clearing Member may be deemed a Restricted Clearing Member by CDCC and the following fines shall apply:

- if the payment or delivery is received more than 2 hours after but less than 2 hours and 15 minutes from notification, CDCC will impose a \$500 fine.
- if the payment or delivery is received more than 2 hours and 15 minutes but less than 2 hours and 30 minutes from notification, CDCC will impose a \$1,000 fine.

Overnight Margin Calls do not apply to Proprietary Swap Transactions.

Intra-Day Swap Margin Calls

CDCC encourages its Clearing Members to cover their Intra-Day Swap Margin Call with acceptable collateral other than cash.

The fine schedule described below is subject to the Escalation Procedure applicable for operational issues detailed in Section 11 of this Manual.

Clearing Members have one (1) hour from notification to cover an Intra-Day Swap Margin Call. If the payment or delivery is late, the following fines shall apply:

- if the payment or delivery is received more than 1 hour after but less than 1 hour and 15 minutes from notification, CDCC will impose a USD \$500 fine.
- if the payment or delivery is received more than 1 hour and 15 minutes but less than 1 hour and 30 minutes from notification, CDCC will impose a USD \$1,000 fine.
- if the payment or delivery is not received by 1 hour and 30 minutes from notification, CDCC will deem the Clearing Member a Non-Conforming Member.

End of day margin calls for Proprietary Swap Transactions

CDCC encourages its Clearing Members to cover end of day margin calls for Proprietary Swap Transactions with acceptable collateral other than cash.

The fine schedule described below is subject to the Escalation Procedure applicable for operational issues detailed in Section 11 of this Manual.

Clearing Members have until 9:00 a.m. the next Swap Business Day to cover an end of day margin call related to Proprietary Swap Transactions. If the payment or delivery is late, the following fines shall apply:

- if the payment or delivery is received by 9:15 a.m. the next Swap Business Day, CDCC will impose a USD \$500 fine.
- if the payment or delivery is received by 9:30 a.m. the next Swap Business Day, CDCC will impose a USD \$1,000 fine.



MARGIN PROCESSING - SUPPLEMENTAL LIQUIDITY FUND

- if the payment or delivery is not received by 9:30 a.m. the next Swap Business Day, CDCC will deem the Clearing Member a Non-Conforming Member.

(FIXED INCOME) VARIATION MARGIN ACCOUNT

The (Fixed Income) Variation Margin Account is the CDCC record provided to each Clearing Member listing all Core Margin Deposits made by such Clearing Member to CDCC for (Fixed Income) Net Variation Margin Requirement purposes only, in accordance with Section D-607 of the Rules, or otherwise as set forth in Section 8 hereof.

(Fixed Income) Net Variation Margin Requirement Settlement

In order to meet a (Fixed Income) Net Variation Margin Requirement, Clearing Members are required to pledge, through CDSX, to CDCC's (Fixed Income) Variation Margin Account, Core Margin Deposits in the form of Eligible Collateral, as specified in the Risk Manual, in an amount sufficient, taking into account the market value and applicable haircuts as specified in Section A-707 of the Rules, to cover any positive variation of the (Fixed Income) Net Variation Margin Requirement owed by a Clearing Member to CDCC.

While the Eligible Collateral must be delivered and pledged to CDCC through CDSX, each Clearing Member must in parallel record in its (Fixed Income) Variation Margin Account such pledge, or any pledge release, to match the entries. The (Fixed Income) Variation Margin Account is solely used to record the pledges or pledge releases, as the case may be, of Core Margin Deposits for (Fixed Income) Net Variation Margin Requirement purposes.

Delivery of the (Fixed Income) Net Variation Margin Requirement

On any given Business Day, each Clearing Member must deliver to the Corporation in CDCC's account at CDS, Eligible Collateral for (Fixed Income) Net Variation Margin Requirement purposes, taking into consideration any shortfall resulting from the variation of the (Fixed Income) Net Variation Margin Requirement, as compared to the (Fixed Income) Net Variation Margin Requirement calculated on the previous Business Day, and the fluctuation of the market value of the Eligible Collateral previously pledged by such Clearing Member to meet its (Fixed Income) Net Variation Margin Requirement.

Upon accepting Eligible Collateral that has been pledged to it through CDSX, CDCC may re-pledge and deliver the Eligible Collateral to a receiving Clearing Member, subject to CDCC's first ranking pledge, and the receiving Clearing Member shall be entitled to re-pledge or re-hypothecate the Eligible Collateral delivered to it.

Each Clearing Member is also required to return to the Corporation the same CUSIP/ISIN that had been allocated and pledged to it by the Corporation as part of the (Fixed Income) Net Variation Margin Requirement delivery, in an amount sufficient to meet the (Fixed Income) Net Variation Margin Requirement shortfalls as indicated on the MS10 report. Clearing Members must return the same CUSIP/ISIN in accordance with the (Fixed Income) Net Variation Margin Requirement Settlement Times. If a Clearing Member fails to return to the Corporation the specific CUSIP/ISIN securities listed on the report but returns equivalent securities instead (a "Fixed Income Variation Margin Delivery Failure"), the Clearing Member will be subject to fines as described below.

Distribution of the (Fixed Income) Net Variation Margin Requirement Collateral

The Corporation will transfer to each Clearing Member being owed a net amount resulting from a change in such Clearing Member's (Fixed Income) Net Variation Margin Requirement or from the fluctuation of the market value of the Eligible Collateral previously pledged by such Clearing Member to meet its (Fixed



MARGIN PROCESSING - SUPPLEMENTAL LIQUIDITY FUND

Income) Net Variation Margin Requirement, the Variation Margin securities received by the Corporation as part of the (Fixed Income) Net Variation

Margin Requirement. The Corporation will in priority return the same CUSIP/ISIN previously pledged to the Corporation by such Clearing Member, subject to the specific procedures described below in the event of a Fixed Income Variation Margin Delivery Failure or of a substitution request.

Substitution of Pledged Securities Collateral for the (Fixed Income) Variation Margin Account

1. (Fixed Income) Variation Margin Account Collateral substitution request:

A Clearing Member may request to substitute a specific CUSIP/ISIN previously pledged in the (Fixed Income) Variation Margin Account to the Corporation. The request for substitution must be received by the Corporation before 11:00 a.m. for same day settlement. Clearing Member must first pledge equivalent securities and withdraw the existing securities subject to substitution. The value of the equivalent securities so pledged must be equal to or in excess of the securities being withdrawn. Substitution of a specific CUSIP/ISIN requested for same day settlement will be completed by 3:00 p.m. by the Corporation, subject to the Buy-In process below.

2. (Fixed Income) Variation Margin Account Securities Collateral substitution notice:

The Corporation will inform by 12:00 p.m. (noon) any Clearing Member subject to a substitution request (the “Holder of securities”) for a same day settlement. The Holder of securities will have until 3.00 p.m. to deliver the securities to CDCC’s (Fixed Income) Variation Margin Account. Failure to deliver by the Holder of securities by the cut-off time will be considered a Fixed Income Variation Margin Delivery Failure and will result in fines being applied to the Holder of securities as described below.

FIXED INCOME VARIATION MARGIN DELIVERY FAILURE

Fines

CDCC will apply fines for failure to return distributed securities.

CDCC will apply fines for failure to return securities subject to a substitution notice, by the appropriate deadline.

For each day between the day of the original return obligation and the delivery date (the “Fail Period”) a fine will be applied (“Fail fees”). The Fail fee is based on a rate equal to CORRA, applied daily. CDCC shall immediately notify the Clearing Member to which a fine is imposed.

Throughout the Fail Period, CDCC will require to receive Eligible Collateral of a value equivalent to the value of the unreturned securities and CDCC will deliver such replacement securities to the receiving Clearing Member (the “Replacement Securities”). At the end of the Fail Period, the Replacement Securities will be returned from the receiving Clearing Member to the delivering Clearing Member.

The fines described above are subject to the Escalation Procedure applicable for operational issues detailed in Section 11 of this Manual.

Collection of Fines

CDCC will collect any applicable fines with the month-end clearing fee billing.

Fixed Income Variation Margin Buy-In process for Fixed Income Variation Margin Delivery Failure



MARGIN PROCESSING - SUPPLEMENTAL LIQUIDITY FUND

The Receiver of securities affected by a Fixed Income Variation Margin Delivery Failure may request that the Corporation execute a Buy-In on the day following the market standard settlement (T+2 / T+3, where T is the day of the original date of the request).

Same day settlement will be executed by CDCC on a best efforts basis. In the event of a failure to deliver by the counterparty to the Buy-In transaction on the same day, CDCC will execute the Buy-In transaction the following day without liability.

The Corporation shall only execute a Buy-In transaction pursuant to a formal request by a Receiver of securities affected by a Failed Delivery, by purchasing on the open market the collateral of the specified quantity and CUSIP/ISIN.

When initiated by a Receiver of securities, the Buy-In process shall be as follows:

1. The Receiver of securities who wants to initiate a Buy-In must send to the Corporation the appropriate Buy-In Scanned Form (which is accessible on CDCC's Secured Website) duly completed with the following information:
 - a. Clearing Member's Name;
 - b. Clearing Member's Number
 - c. The specific securities (Eligible Collateral) (ISIN) involved;
 - d. The total quantity of the Failed Delivery;
 - e. The quantity requested in the Buy-In;
 - f. The Buy-In delivery date, which shall be the current Business Day + no less than two (2) complete Business Days.

The Buy-In Scanned Form must be submitted to CDCC in the prescribed format and must be signed by an Authorized Representative of the Clearing Member before 10:00 a.m.

2. Upon receiving the duly completed Buy-In Scanned Form from a Receiver of securities, the Corporation will work with the Holder(s) of securities responsible for the Failed Delivery in order to validate if the delivery can be made within the number of Business Days specified in the Buy-In Scan Form (the "Buy-In Notice Delay").
3. At the expiry of the Buy-In Notice Delay, if the Provider(s) of securities has not delivered the relevant securities, the Corporation will initiate a cash trade on the open market.
4. Upon receipt of the securities, CDCC will deliver the requested securities to the Receiver that initiated the Buy-In transaction.
5. All fees incurred by the Corporation, including all costs with respect to the Buy-In transaction shall be charged to the Provider(s) of securities responsible for the Failed Delivery. Such fees will be included on the Monthly Clearing Fees Details Report (MB01) produced on the second Business Day of each month as a separate pay figure, payable to the Corporation on the fifth Business Day of each month through LVTS or any other payment method approved by the Corporation.



MARGIN PROCESSING - SUPPLEMENTAL LIQUIDITY FUND

CLEARING FUND

Each Clearing Member (excluding LCMs) approved to clear Exchange Transactions and/or OTCI Transactions shall maintain a deposit in the Core Tranche of the Clearing Fund and each Swap Clearing Member shall maintain a deposit in the Swap Tranche of the Clearing Fund of the amounts from time to time required by CDCC in accordance with Rule A-6. The Clearing Fund has been established to protect CDCC and its Clearing Members (including their Affiliate(s)) from potential defaults and other market events. The Core Tranche of the Clearing Fund shall be used for the purposes set out in Section A-609 and Subsection A-701(2) of the CDCC Rules. The Swap Tranche of the Clearing Fund shall be used for the purposes set out in Section A-609 and Subsection A-7A01(2) of the CDCC Rules.

Each Clearing Member's (excluding LCMs) contribution includes a required Base Deposit and a Variable Deposit. The details of the Base and Variable Deposits are set forth in Rule A-6.

Clearing Fund Statement Report

On the first Business Day of each calendar month, CDCC shall issue to each Clearing Member (excluding LCMs) a Clearing Fund Statement that shall list the current amount of such Clearing Member's deposits to the Core Tranche of the Clearing Fund and the Swap Tranche of the Clearing Fund and the amount of deposit, which is based on the monthly calculation of the Variable Deposit, required of such Clearing Member in respect of each of the Core Tranche of the Clearing Fund and the Swap Tranche of the Clearing Fund, as applicable. CDCC will also issue a Clearing Fund statement (MA71) intra-monthly if an increase to the Variable Deposit in respect of either the Core Tranche of the Clearing Fund or the Swap Tranche of the Clearing Fund is necessary. Any deficit between the amounts held on deposit and the deposit required to be made by a Clearing Member must be satisfied on the next Business Day or Swap Business Day, as applicable, (T+1) before 10:00 a.m. (no same-day deposit).

Deposits

Deposits to the Clearing Fund shall be in the form of Cash. Deposits to the Clearing Fund are made and valued in the same manner and are subject to the same deadlines as for deposits of Core Margin or TRS Margin, as applicable, as set forth in Section 2 of this Operations Manual.

Withdrawals

Clearing Members (excluding LCMs) may request to withdraw any surplus amount from the Clearing Fund, subject to applicable deadlines, as set forth in Section 2 of this Operations Manual.

Pledges

Pledges of Cash must be performed in accordance with Rule A-6.



MARGIN PROCESSING - SUPPLEMENTAL LIQUIDITY FUND

SUPPLEMENTAL LIQUIDITY FUND

Each Clearing Member (excluding LCMs) approved to clear Transactions shall maintain Supplemental Liquidity Contributions in the Core Tranche of the Supplemental Liquidity Fund in respect of Core Products and shall maintain Supplemental Liquidity Contributions in the Swap Tranche of the Supplemental Liquidity Fund in respect of Proprietary Swap Transactions, in each case of the amounts from time to time required by CDCC in accordance with Rule A-6A of the CDCC Rules and the Risk Manual. The Supplemental Liquidity Fund has been established to protect CDCC from potential liquidity obligations or exposure that CDCC may suffer and shall be used for the purposes set out in Rule A-6A of the CDCC Rules.

Supplemental Liquidity Fund Statement

On the first Business Day of each calendar month, CDCC shall issue to each Clearing Member (excluding LCMs) a Supplemental Liquidity Fund Statement that shall list the current amount of such Clearing Member's Supplemental Liquidity Contributions to each of the Core Tranche of the Supplemental Liquidity Fund and the Swap Tranche of the Supplemental Liquidity Fund and the amount of Supplemental Liquidity Contributions required of such Clearing Member in respect of each. CDCC will also issue a Supplemental Liquidity Fund Statement (MA80) intra-monthly if an increase to the Supplemental Liquidity Contributions is necessary. Any deficit between the Supplemental Liquidity Contributions held in the Supplemental Liquidity Fund and the Supplemental Liquidity Contributions required to be made by a Clearing Member must be satisfied on the next Business Day or Swap Business Day, as applicable, (T+1) before 10:00 a.m. (no same-day deposit).

Supplemental Liquidity Contributions

Supplemental Liquidity Contributions to the Supplemental Liquidity Fund shall be in the form of Cash. Supplemental Liquidity Contributions to the Supplemental Liquidity Fund are valued in the manner set forth in the Risk Manual.

Withdrawals

Clearing Members (excluding LCMs) may request to withdraw any surplus amount from the Supplemental Liquidity Fund.

Pledges

Pledges of Cash must be performed in accordance with Rule A-6A of the CDCC Rules.

SECTION 9 CLEARING FEES

Clearing services fees

Clearing fees are charged to both Clearing Members submitting a Transaction for clearing to CDCC and are based on the number of contracts involved or the gross notional of the Proprietary Swap Transactions. There is a minimum monthly clearing fee charge with respect to certain product types (Futures, Options and OTCI (other than Fixed Income Transactions)) and Proprietary Swap Transactions. Once a Clearing Member, otherwise eligible to do so in accordance with the Rules, starts using a particular clearing service by submitting a first Transaction of such product type, the applicable minimum monthly clearing fee shall be charged to the Clearing Member thereafter whether the Clearing Member actually uses the services or not during any given month, until the Clearing Member duly notifies CDCC in writing that it wishes to withdraw from the clearing services for that product type, effective sixty (60) days after CDCC receives such notice, provided there is no outstanding Transaction of such product type standing to an account of the Clearing Member at such time. Clearing Members should refer to the CDCC website www.cdcc.ca for a complete list of applicable fees.

Clearing fees are collected as a separate pay figure and are payable to CDCC on the morning of the 5th Business Day or Swap Business Day, as applicable, of each month through LVTS or any other payment method approved by CDCC. The MB01 Monthly Clearing Fees Invoice, MB02 Monthly Clearing Fees Details Reports and MB03 Monthly Fixed Income Clearing Fees Invoice are generated on every 2nd Business Day of each month and are available to Clearing Members on the morning of the 3rd Business Day of each month.

Fees for additional services

There are a number of discretionary services available to Clearing Members, in addition to the normal clearing services. These are published periodically as an Operational Notice to Members and can be viewed on the Secured Website. CDCC issues a statement on a monthly basis for these services. The fees are collected as per the date on the statement through LVTS or any other payment method approved by CDCC.

Fees for cost incurred at CDS (or other Central Securities Depository)

Any settlement cost incurred by CDCC within CDSX (or the settlement platform of another Central Securities Depository) will be charged to the Clearing Member with which CDCC is settling. Such cost will be included on the Monthly Clearing Fees Details Report (MB01) of the second Business Day of each month as a separate pay figure, payable to CDCC on the 5th Business Day of each month through LVTS or any other payment method approved by CDCC.

Clearing Members shall designate up to three (3) individuals within their firm who will be responsible for handling the Clearing Member's User Profiles ("Security Officers"). The designation of Securities Officers is done by filing with CDCC a CDCC Clearing Application - Security Officer Identification form, which form shall be renewed on an annual basis.

Once duly designated, a Security Officer shall submit a CDCC Clearing User Profile Request form to request that CDCC add or delete a User Profile (this form is accessible on CDCC's Secured Website).



SECTION 10 SECURITY OFFICER

The Security Officer must complete this form and have it signed by an Authorized Representative of the Clearing Member. When the form is complete, the Clearing Member can either scan the form and send it to the Corporate Operations group e-mail address: cdcc-ops@tmx.com, or fax the form to one of CDCC's offices.

Upon receipt of the form, the process for the addition / deletion is performed by one of CDCC's senior managers.



SECTION 11 ESCALATION PROCEDURE

PAYMENT FAILURE ESCALATION PROCEDURE

A failure by a Clearing Member to meet a payment, transfer, deposit, delivery, or acceptance of delivery when such obligation becomes due under the Rules (for the purpose of this Section 11 - Escalation Procedure, a "Payment Failure") as a result of an operational issue, including any material systems failure, malfunction, or delay encountered by a Clearing Member or its securities intermediary, including its Settlement Agent, Approved Depository, or Approved Custodian, (an "Operational Issue") shall be managed by the Corporation in accordance with the following procedure, (the "Escalation Procedure").

1. Communication

- a. For the purposes of this Payment Failure Escalation Procedure:
 - (i) a CDCC Level 1 contact shall be a Director Operations, or its equivalent;
 - (ii) a CDCC Level 2 contact shall be a Vice-President Operations, or its equivalent;
 - (iii) a CDCC Level 3 contact shall be the President and Chief Clearing Officer or Vice-President and Chief Risk Officer;
 - (iv) a Clearing Member Level 1 contact shall be a Director of Operations, or its equivalent;
 - (v) a Clearing Member Level 2 contact shall be a Vice-President Operations, or its equivalent; and
 - (vi) a Clearing Member Level 3 contact shall be a senior executive reporting directly to the president of the Clearing Member, or to its equivalent in the absence of a senior executive of the Clearing Member bearing the title "president".
- b. The CDCC Level 1 contact shall, immediately upon acquiring actual knowledge or confirmation of a Payment Failure by a Clearing Member, notify the Clearing Member Level 1 contact of the Payment Failure. The Clearing Member Level 1 contact shall, within a reasonable period of time, confirm the nature of the issue that caused the Payment Failure and, promptly upon providing such confirmation, proceed to provide the Corporation with the required information in accordance with the Operational Issue Resolution Notice defined below.
- c. In the event that (i) the Clearing Member Level 1 contact fails to respond to the CDCC Level 1 contact within a reasonable period of time, (ii) the Clearing Member Level 1 contact cannot confirm the nature of the issue that caused the Payment Failure, or (iii) the information provided by the Clearing Member Level 1 contact regarding the nature of the Operational Issue that caused the Payment Failure is deemed unsatisfactory by the Corporation, the CDCC Level 2 contact shall immediately contact the Clearing Member Level 2 contact. The Clearing Member Level 2 contact shall, promptly upon being contacted in accordance with this subsection, proceed to provide the Corporation with the required information in accordance with the Operational Issue Resolution Notice defined below.
- d. In the event that (i) the CDCC Level 2 contact fails to reach the Clearing Member Level 2 contact within a reasonable period of time, (ii) the Clearing Member Level 2 contact

ESCALATION PROCEDURE

cannot confirm the nature of the Operational Issue that caused the Payment Failure, or (iii) the information provided by the Clearing Member Level 2 contact regarding the nature of the Operational Issue that caused the Payment Failure is deemed unsatisfactory by the Corporation, the CDCC Level 3 contact shall immediately contact the Clearing Member Level 3 contact. The Clearing Member Level 3 contact shall, within an hour after being contacted in accordance with this subsection, proceed to provide the Corporation with the required information in accordance with the Operational Issue Resolution Notice defined below.

2. Operational Issue Resolution Notice

- a. Upon receiving notification by the Corporation of the Payment Failure in accordance with Section 1 of this Escalation Procedure, if the Clearing Member Level 1, 2, or 3 contact, as the case may be, confirms in accordance with Subsection 1 that the Payment Failure is solely due to an Operational Issue, such Clearing Member Level 1, 2, or 3 contact, as the case may be, shall provide the Corporation with a written confirmation of the nature of the Operational Issue that caused the Payment Failure and a detailed description of the steps proposed to be taken by the Clearing Member to resolve the Operational Issue (together, the “Operational Issue Resolution Notice”). Where the Operational Issue affects the Clearing Member’s securities intermediary (including its Settlement Agent, Approved Depository or Approved Custodian), the Clearing Member shall immediately provide the Corporation with the contact details for the relevant representative of such securities intermediary’s and include such representative in every communication with the Corporation related to the Operational Issue until the full resolution of the Operational Issue.
- b. The Operational Issue Resolution Notice shall be re-issued by the Clearing Member Level 3 contact, to the Corporation on each day on which the Payment Failure persists, until there is a full resolution of the Operational Issue to the satisfaction of the Corporation.

3. Mitigation Tools

Immediately upon the occurrence of a Payment Failure, the Clearing Member shall use its best efforts to resolve the Operational Issue, and to mitigate the Payment Failure by the use of the following mitigation tools (the “Mitigation Tools”) before 3:45 p.m., where necessary:

- a. The Exception Process Request after the start of CDS payment exchange, where applicable, or
- b. The Payment Delay Request.

4. Delayed Resolution

On any Business Day or Swap Business Day on which an Operational Issue Resolution Notice remains in effect, in the event that the Corporation is of the view that the Operational Issue is expected, or likely, to persist until the next following Business Day or Swap Business Day, as applicable,

- a. The Corporation may determine that no Transaction shall be cleared by the Corporation for such Clearing Member until resolution; and

ESCALATION PROCEDURE

- b. The Clearing Member Level 3 contact shall provide written confirmation that the Payment Failure is solely due to an Operational Issue and that the Clearing Member has used its best efforts to use the Mitigation Tools, and requests, if necessary, no later than 3:45 p.m. on the Business Day or Swap Business Day, as applicable, on which the first notification of the Payment Failure has been made, by a Payment Delay Request that the Corporation funds the Clearing Member's obligations of payment to the Corporation until the next following Business Day or Swap Business Day. The Clearing Member shall, upon request by the Corporation, represent and warrant to each of the Corporation's lender, acknowledging and confirming that each of the Corporation and the lender is relying on such representations and warranties without independent inquiry, that the Payment Failure is solely due to an Operational Issue and that no financial condition is affecting the Clearing Member in such a way that the provision of temporary funding in accordance with this section could jeopardize the interest of the Corporation or other Clearing Members. In the event that temporary funding is provided in accordance with this section, all fees and costs incurred by the Corporation in connection with such funding shall be added to and become part of the payment obligation owed by the Clearing Member to the Corporation and will become due immediately.
- 5. Non-Conforming
 - a. If no Mitigation Tool has been successfully implemented by the Clearing Member by the end of the Business Day or Swap Business Day, as applicable, on which the first notification of the Payment Failure has been made, the Corporation may declare the Clearing Member a Non-Conforming Member provided that the President & Chief Clearing Officer (or its designate) of the Corporation, prior to such designation, notifies the appropriate senior officer of the Bank of Canada in accordance with the Bank of Canada communication requirements.
 - b. If a Mitigation Tool has successfully been used by the Clearing Member but the Corporation is not satisfied with the information provided pursuant to the Operational Issue Resolution Notice, or considers that the steps proposed to be taken by the Clearing Member to resolve the Operational Issue expose the Corporation to an unacceptable level of risk, the Corporation may declare the Clearing Member a Non-Conforming Member, provided that the President & Chief Clearing Officer (or designate) of the Corporation prior to such designation notifies the appropriate senior officer of the Bank of Canada in accordance with the Bank of Canada communication requirements. The Corporation shall not exercise this discretion without having first performed the Escalation Procedure pursuant to Section 11 within a reasonable timeframe upon acquiring actual knowledge or confirmation of a Payment Failure by a Clearing Member and will not exercise this discretion before 10:00 a.m. on the day following the receipt of the Level-3 Operational Issue Resolution Notice, unless the Clearing Member has not confirmed that the Payment Failure results from an Operational Issue.

OVERNIGHT UNCOVERED RISK EXPOSURE

During the Overnight Clearing Cycle, CDCC's risk appetite for acceptable levels of uncovered risk are measured every hour on a per Clearing Member basis as a proportion of their Margin requirements, and will therefore take the form of a relative threshold (the "Threshold"). The first monitoring snapshot occurs at 10:00 p.m. ET (t-1) and the last one at 8:15 a.m. ET, where the Margin requirement is systemically updated with movements in Core Initial Margin, but only updated twice with movements in Variation Margin (at the 1:00 a.m. ET and 8:15 a.m. ET monitoring snapshot). The hourly monitoring of both the Core Initial Margin and Variation Margin is available and used to estimate the build-up of credit exposure (the "Live margin check").

The Threshold will only apply if at least one position movement is captured during the Overnight Clearing Cycle, allowing the Clearing Member to be considered inactive as long as positions remain static ("Position-based trigger"). In other words, a Clearing Member will be considered inactive until one position movement is captured, after which such Clearing Member will be considered active for the rest of the Overnight Clearing Cycle.

The Threshold will trigger different actions depending on the Clearing Member's established overnight collateral solution (i.e. Pre-funding solution or Payment solution, see additional details in Section 12 below). Consequently, CDCC uses the following terminology for the Threshold:

- **"Margin Call threshold"** - Applicable to the Payment solution. If the Clearing Member reaches the Margin Call threshold, an Overnight Margin Call is issued and needs to be fulfilled within the given timeline. If the Clearing Member doesn't fulfill its payment obligation or the payment capabilities are not enough to fulfill the obligation, CDCC may deem such Clearing Member as a Restricted Clearing Member.
- **"Trading threshold"** - Applicable to the Pre-funding solution. If the Clearing Member reaches the Trading threshold, CDCC may deem such Clearing Member as a Restricted Clearing Member.

Additionally, CDCC will use the below terminology to address Live margin check breaches:

- **"Warning threshold"** - Should only the Live margin check be breached, a warning is communicated to the Clearing Member.

Overnight Uncovered Risk Exposure Escalation procedure:

- a. the overnight contact list for the purposes of the "Overnight Uncovered Risk Exposure" Escalation Procedure:
 - (i) a CDCC Level 1 contact shall be an Operations Specialist, its equivalent or higher;
 - (ii) a CDCC Level 2 contact shall be a Senior Manager, its equivalent or higher;
 - (iii) a CDCC Level 3 contact shall be the President or Chief Clearing Officer or Vice-President and Chief Risk Officer;
 - (iv) a Clearing Member Level 1 contact shall be an Operation Specialist, its equivalent or higher;

ESCALATION PROCEDURE

- (v) a Clearing Member Level 2 contact shall be a Senior Manager, its equivalent or higher; and
 - (vi) a Clearing Member Level 3 contact shall be a senior executive reporting directly to the president of the Clearing Member, or to its equivalent in the absence of a senior executive of the Clearing Member bearing the title “president”.
- b. The CDCC Level 1 contact shall, immediately upon acquiring confirmation of a Warning threshold breach by a Clearing Member, notify the Clearing Member Level 1 contact of the “Warning threshold” breach.
- c. The CDCC Level 1 contact shall, immediately upon acquiring confirmation of a Margin Call threshold breach by a Clearing Member, notify the Clearing Member Level 1 contact of the breach and that an Overnight Margin Call will be issued.
- d. The CDCC Level 2 contact shall, immediately upon acquiring confirmation of a Trading threshold breach or that the Clearing Member didn’t fulfill its payment obligation following the issuance of an Overnight Margin Call, notify the Clearing Member Level 2 contact of the situation and that the Clearing Member may be deemed a Restricted Clearing Member by CDCC.
- e. The CDCC Level 3 contact shall, immediately upon acquiring actual knowledge or confirmation that a Clearing Member may be or was deemed a Restricted Clearing Member, communicate with the Clearing Member Level 3 contact.



SECTION 12 OVERNIGHT CLEARING CYCLE REQUIREMENTS

During the Overnight Clearing Cycle, Clearing Members are assigned to one of the following solution based on their payment capabilities:

- Pre-funding solution (i.e. Overnight Clearing Cycle Eligible Collateral payment capabilities not available)
- Payment solution (i.e. Overnight Clearing Cycle Eligible Collateral payment capabilities available)

By default, Clearing Members are considered part of the Pre-funding solution until they demonstrate their ability to meet their obligations towards CDCC from amongst the below list of Overnight Clearing Cycle Eligible Collateral with respect to the Asian hours, European hours, or both:

- “Asian hours” - i.e. 8:00 p.m. to 1:00 a.m. ET - in a selection of eligible Non-CAD currencies.
- “European hours” - i.e. 1:00 a.m. to 8:15 a.m. ET - in a selection of eligible currencies until 7:00 a.m. ET or any form of eligible collateral pledged through CDSX.

Clearing Members opting to qualify for the Payment solution during either the Asian hours, European hours or both will automatically be considered as part of the Payment solution at the 1:00 a.m. ET monitoring snapshot (juncture of Asian and European hours).

CDCC will conduct routine testing of the Payment solution from time to time to ensure that operational readiness is maintained by Clearing Members. Should a Clearing Member fail such tests, it will be reassigned to the Pre-funding solution.

CDCC will allow Clearing Members under the Pre-funding solution to enter the Payment solution at any time after the required certification requirements are passed.

RISK MANUAL

BLACKLINE VERSION

RISK MANUAL

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Risk Manual

Glossary

Unless otherwise defined in this Risk Manual, capitalized terms shall have the meanings given to them in the Rules.

Adjusted Core Base Initial Margin: With respect to Limited Clearing Members, the Core Base Initial Margin is multiplied by the Effective Ratio. The Effective Ratio is recalibrated on a regular basis as provided in this Risk Manual.

Additional Margin(s): Additional Margins are added to the Core Base Initial Margin (or Adjusted Core Base Initial Margin, where applicable) and Swap Base Initial Margin to form part of the Core Initial Margin or Swap Initial Margin, as applicable, in accordance with the methodology set out in this Risk Manual. The Additional Margins include the following: (1) Additional Margin for Market Liquidity Risk, (2) Additional Margin for Specific Wrong-Way Risk, (3) Additional Margin for Mismatched Settlement Risk, (4) Additional Margin for Intra-Day Variation Margin Risk, (5) Additional Margin for Unpaid Option Premium Exposure Risk, (6) Additional Margin for Banking Holiday Risk, (7) Additional Margin for Variation Margin Delivery Risk, (8) Additional Margin for Capital Risk, (9) Additional Margin for Uncovered Risk of Limited Clearing Members ~~and~~, (10) Additional Margin for ~~Intraday~~Intra-Day GCM Risk, (11) Additional Margin for Undeclared GCM Positions Risk, (12) Additional Margin for Dividend Payment Risk, (13) Additional Margin for Stress Test Risk, and (14) any other Additional Margins as set out in the Rules (other than required pursuant to Rule D-607). When used in the singular form, Additional Margin shall refer to one of the Additional Margins described above, whenever the context so requires.

Additional Margin for Banking Holiday Risk: ~~The~~This Additional Margin ~~for Banking Holiday Risk~~requirement covers the risk of uncovered exposures arising from new trades during ~~the~~a Banking Holiday and the additional market risk that the Corporation could face during ~~the~~a Banking Holiday.

Additional Margin for Capital Risk: This Additional Margin requirement covers the credit risk ~~of the Clearing Members~~ that arises if the exposure of a Clearing Member to the Corporation is greater than the Clearing ~~Member's~~Member's capital level.

Additional Margin for Dividend Payment Risk: This Additional Margin requirement covers the payment risk that may occur when a Cash Distribution is declared in the manner prescribed in Section D-807 (Dividends) of the Rules.

Additional Margin for Intra-Day GCM Risk: This Additional Margin requirement covers the risk associated with uncovered exposures arising from new trades and the incremental market risk that the Corporation could face between two consecutive Business Day updates of the GCM Declaration File.

Additional Margin for Intra-Day Variation Margin Risk: This Additional Margin requirement covers the intra-day risk arising in circumstances in which market volatility or surges in trading volumes produce unusually large Variation Margin exposures.

Additional Margin for Market Liquidity Risk: This Additional Margin requirement covers the liquidity risk arising when the Corporation has to close-out positions at a price different than the market price ~~, or the last calculated theoretical price~~. This liquidity risk could be divided into two components: the first one is the inherent market liquidity risk which is mainly associated with the bid-ask spread, and the second one is the additional liquidity risk due to concentrated positions that cannot be liquidated within the bid-ask spread.

Additional Margin for Mismatched Settlement Risk: This Additional Margin requirement covers the risk arising from a lag between the settlement of ~~positions~~Fixed Income Transactions which otherwise results in a margin offset.

Additional Margin for Stress Test Risk: This Additional Margin requirement covers the risk that arises when the exposure of a Swap Clearing Member is greater than a specific threshold that is based on the level of the Swap Clearing Member's stress tests.

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Additional Margin for Specific Wrong-Way Risk: This Additional Margin requirement covers the risk that arises when the exposure of a Clearing Member in its own products is adversely correlated with the creditworthiness of that Clearing Member.

Additional Margin for Uncovered Risk of Limited Clearing Members: This Additional Margin requirement covers the risk exposure that arises if the total value of the risk represented by a Limited Clearing Member to the Corporation is greater than the aggregate amount of the Limited Clearing Member's Adjusted Core Base Initial Margin and the total value of the Clearing Fund. The risk represented by the Limited Clearing Member is determined by the Corporation by calculating the estimated loss that the Corporation would face in extreme but plausible market conditions. This Additional Margin is calculated on a daily basis and is required from Limited Clearing Members only.

Additional Margin for Undeclared GCM Positions Risk: This Additional Margin requirement covers the risk that arises on a Business Day when a Clearing Member does not report in whole or in part eligible positions in the GCM Declaration File.

Additional Margin for Unpaid Option Premium Exposure Risk: ~~The This~~ Additional Margin for Unpaid Option Premium Exposure Risk requirement covers the risk incurred by the Corporation in guaranteeing to each Clearing Member the settlement of the Net Daily Premium on a daily basis.

Additional Margin for Variation Margin Delivery Risk: ~~The This~~ Additional Margin for Variation Margin Delivery Risk requirement covers the risk incurred by the Corporation in guaranteeing to each Clearing Member having pledged specific securities to cover its Net Variation Margin Requirement, the return of such specific securities, in the event that another Clearing Member to which the specific securities were initially delivered fails to return such specific securities and becomes a Non-Conforming Member or is suspended. In this case, the Corporation will have to buy the specific securities in the market to return to the Clearing Member that had initially pledged the specific securities.

Banking Holiday: ~~Remembrance Day, in Canada, or~~ Any day determined ~~as Remembrance Day~~ by the Corporation to be a banking holiday through its holiday schedule. A list of Banking Holidays is published by the Corporation on a yearly basis.

Base Initial Margin: ~~The~~ Base Initial Margin ~~requirement covers the potential losses that may occur over~~ means the next liquidation period as a result of market fluctuations. The Core Base Initial Margin ~~does not include any Additional Margins or the Swap Base Initial Margin, as applicable.~~

Boundaries: With respect to the Effective Ratio, the Boundaries refer for a specific period to the upper limit (UB) and lower limit (LB) which are respectively the highest and lowest Daily Ratios during such period.

CDCC Book Positions: Positions by account recorded in CDCS. The level corresponds to the Risk Account level for all the types of accounts, with the exception of the GCM eligible positions under the Client Account Omnibus for which an additional account segregation will be provided by the GCM Declaration File.

Clearing Fund Requirement: The Clearing Fund Requirement constitutes the ~~required contribution~~ contributions to the Core Tranche of the Clearing Fund ~~for and the contributions to the Swap Tranche of the Clearing Fund required of~~ each Clearing Member (excluding Limited Clearing Members).

Combined Commodity: Group of positions that are associated with the same Underlying Interest or product or both. Combined Commodity is the lowest level at which the Core Base Initial Margin for Options, Futures and Unsettled Items is computed.

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Core Base Initial Margin: The Core Base Initial Margin requirement covers the potential losses that may occur in respect of the Core Business over the next liquidation period as a result of market fluctuations. The Core Base Initial Margin does not include any Additional Margins.

Core Initial Margin: The Core Initial Margin is composed of the Core Base Initial Margin (or Adjusted Core Base Initial Margin, as the case may be) and the applicable Additional Margins.

Core Tranche: The tranche of the Clearing Fund or the Supplemental Liquidity Fund, as applicable, pertaining to activities in respect of Core Products.

Daily Ratio: The Daily Ratio is determined, for any Business Day, by dividing the total amount of Clearing Fund ~~Requirement~~Requirements in respect of the Core Tranche of the Clearing Fund on that Business Day by the aggregate amount of the Core Base Initial Margin requirement of all Clearing Members (other than Limited Clearing Members) on the same Business Day.

Effective Ratio: Ratio established by the Corporation, in accordance with the governance standards set forth in this Risk Manual, which reflects the multiplier applicable to the Core Base Initial Margin for Limited Clearing Members.

Expected Shortfall: Average of all losses which are greater than or equal to the worst case. The worst case represents the (1- α)% case, where α is the confidence level.

Flat Rate: Parameter established by the Corporation which reflects maximum price fluctuation that certain Eligible Shares could be expected to have during the MPOR. The Flat Rate is used to calculate the Swap Base Initial Margin.

Haircut: Percentage discounted from the market value of eligible collateral pledged for Margin Deposit. The discount reflects the price movement volatility of the collateral pledged.

Historical Filtered Scenarios: Set of scenarios resulting ~~off from~~ a weight applied to the Historical P&L Scenarios to reflect the current volatility. The current volatility is estimated by applying a volatility scaling adjustment using the exponentially weighted moving average (EWMA).

Historical P&L Distribution: Ranking of the Historical P&L Scenarios from the largest loss to the largest profit.

Historical P&L Scenarios: Set of scenarios for a Fixed Income Transaction (or Proprietary Swap Transactions) representing the hypothetical gains and losses ("**P&L**") derived from Historical Filtered Scenarios. The gains and losses are created by calculating the difference between the price of the Fixed Income Transaction (or Proprietary Swap Transactions) under an Historical Filtered Scenario and the initial reference price.

Historical Scenarios: Set of scenarios for a Risk Factor and representing an hypothetical market observation movement reasonably likely to occur, from the current situation to a specific point in time in the future.

Initial Margin: ~~The Margin which covers the potential future exposure of a Clearing Member's portfolio and is comprised of Core~~ Initial Margin is composed of the Base Initial Margin (or Adjusted Base and the Swap Initial Margin, as the case may be) and the Additional Margins applicable.

Inter-Commodity: Portfolio containing offsetting positions in highly correlated instruments are subject to credits which reduce the overall Core Base Initial Margin for Options, Futures and Unsettled Items.

Intra-Commodity: Portfolio containing offsetting positions in different maturity ~~month~~months in the same Combined Commodity are subject to a charge since they may not be perfectly correlated.

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Liquidity Shortfall: The uncovered liquidity obligations, as determined by the Corporation based on the potential payment obligations that the Corporation could face upon the default of a Clearing Member in extreme but plausible market conditions, that ~~remains remain~~ outstanding after the Corporation has allocated (i) the cash in such Clearing Member's Core Margin ~~Deposit~~Deposits or Swap Margin Deposits, as applicable, or all Clearing Members' Core Margin Deposits or Swap Margin Deposits, as applicable (including, without limitation, cash in the deposits required or made as Margin), and (2ii) the Corporation's available commercial bank liquidity lines.

Margin Interval (MI): Parameter established by the Corporation which reflects the maximum price fluctuation that the Underlying Interest could be expected to have during the MPOR. The MI is used to calculate the Core Base Initial Margin for Options, Futures and Unsettled Items.

Margin Period of Risk (MPOR): The period required by the Corporation to close-out non-concentrated positions in a particular contract ~~for~~ either through liquidation, auction or by hedging or neutralizing the market risk.

Non-CAD Currencies: Currencies other than the Canadian dollar.

P&L: - has the meaning given to it in the definition of Historical P&L Scenarios.

Price Scan Range (PSR): The maximum price movement reasonably likely to occur, during a specified timeframe.

Risk Array: A Risk Array is a set of scenarios defined for a particular contract and representing the hypothetical gain/loss under a specific set of market conditions from the current situation to a specific point in time in the future.

Risk Factor: Factor influencing the value of a Derivative Instrument or OTCI.

~~**Risk Engine:** The system used by the Corporation for risk management, risk measurement and calculation of Initial Margin and Clearing Fund Requirement.~~

Rules: means the Rules of the Corporation, including the Operations Manual and this Risk Manual, as any such rules and manuals may from time to time be amended, changed, supplemented or replaced in whole or in part.

Scanning Risk: The difference between the initial reference price of an Underlying Interest and its most unfavourable projected liquidation value obtained by shocking the values of the Underlying Interest according to several scenarios representing adverse changes in normal market conditions.

Short Option Minimum: Amount included in the Core Base Initial Margin to cover the risk exposure arising from deep out-of-the-money short option positions. This amount is required if this amount is higher than the result of the Risk Arrays.

Swap Base Initial Margin: The Swap Base Initial Margin requirement covers the potential losses that may occur in respect of Proprietary Swap Transactions over the next liquidation period as a result of market fluctuations. The Swap Base Initial Margin does not include any Additional Margins.

Swap Initial Margin: The Swap Initial Margin is composed of the Swap Base Initial Margin and the applicable Additional Margins.

Swap Tranche: The tranche of the Clearing Fund or the Supplemental Liquidity Fund, as applicable, pertaining to activities in respect of Proprietary Swap Transactions.

Uncovered Residual Liquidity Risk: The difference between each Clearing Member's highest daily Liquidity Shortfall in respect of Core Products or Proprietary Swap Transactions, as applicable, and the highest Uncovered Residual Credit Risk across all Clearing Members (excluding LCMs) in respect of Core Products or Proprietary Swap Transactions,

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as applicable, in the last 60 Business Days before the date upon which CDCC determines the Supplemental Liquidity Contributions ~~from time to time in respect of the Core Tranche of the Supplemental Liquidity Fund or the Swap Tranche of the Supplemental Liquidity Fund, as applicable, from time to time.~~

Variation Margin: The Variation Margin covers the ~~risk due to the change in price~~ daily changes that occurred as a result of ~~a Derivative Instrument or of an OTCI or a change in the Floating Price Rate, in each case since the previous evaluation in accordance with the Rules~~ market fluctuations.

VaR Risk Group(s): Group of Fixed Income Transactions or Proprietary Swap Transactions that are associated to similar Risk Factors. VaR Risk Group is the lowest level at which the Core Base Initial Margin for Fixed Income Transactions and the Swap Base Initial Margin for Proprietary Swap Transactions is computed.

Volatility Scan Range (VSR): The maximum implied volatility movement reasonably likely to occur, during a specified timeframe.

Volatility Shock(s): Parameter established by the Corporation which reflects the maximum daily volatility fluctuation of the Option contract. The Volatility Shock is used to calculate the Core Base Initial Margin for Options.

Zero Curve: Specific type of yield curve that associates interest rates on zero coupon bonds to different maturities (tenors). Tenors represent the Risk Factors inputs to evaluate the price of a Fixed Income Transaction or a Proprietary Swap Transaction using a full revaluation method.

Section 1 : MARGIN DEPOSITS

As set out in the Rules, every Clearing Member shall be obligated to deposit Margin with the Corporation, as determined by the Corporation. Margin Deposits must be made in the form of eligible collateral, as specified in Section ~~3~~3 of this Risk Manual, in an amount sufficient, taking into account the market value and applicable Haircuts.

The Corporation requires Core Margin Deposits in respect of the Core Business and Swap Margin Deposits in respect of Proprietary Swap Transactions to cover two types of requirements, namely:

- The Core Margin requirement and the Swap Margin requirement, as applicable; and
- Clearing Fund Requirement.

1.1 Margin Requirement

The Margin requirement is determined separately in respect of each of the Core Business and Proprietary Swap Transactions and is composed of the applicable Initial Margin and the applicable Variation Margin.

1.1.1 Initial Margin

The Core Initial Margin for the Core Business is composed of the Core Base Initial Margin (or Adjusted Core Base Initial Margin, as the case may be) and the applicable Additional Margins. The Swap Initial Margin in respect of Proprietary Swap Transactions is composed of the Swap Base Initial Margin and the applicable Additional Margins. In order to cover the Initial Margin described below, Clearing Members shall deliver Deposits to CDCC in an acceptable form ~~of Deposits~~ in accordance with Section ~~3~~3 of this Risk Manual.

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1.1.1.1 Core Base Initial Margin and Swap Base Initial Margin

The Core Base Initial Margin requirement covers and the Swap Base Initial Margin requirement cover the potential losses and market risk that may occur as a result of future adverse price changes and/or Risk Factors across the portfolio of each applicable Clearing Member under normal market conditions.

The risk methodology for ~~the~~ Options, Futures and Unsettled Items incorporates the historical volatility of the daily price returns of the Underlying Interests for Options, Unsettled Items and Share Futures and the daily price returns of the Futures prices for Futures (excluding Share Futures). In addition, as part of the methodology, the Corporation uses a volatility estimator, a confidence level over 99% under the normal distribution or the student's t-distribution assumption and a variable number of days as the MPOR. The Corporation also considers various measures to mitigate the procyclicality of margins:

- A Stress Risk component, calculated with a StressStressed Value at Risk (SVaR) and a weighting factor of 25%.
- A volatility floor, calculated as an average of the daily volatility estimator observed over the last 10 years.

The risk methodology for Fixed Income Transactions is the Value at Risk methodology (VaR)¹. This methodology considersincorporates a full revaluation method and ~~it~~ is based on Zero Curves. In addition, as part of the methodology, the Corporation uses a volatility estimator, a confidence level over 99% and a variable number of days as the MPOR. The Corporation also considers a Stress Risk component to mitigate the procyclicality of margins, calculated with a Stressed Value at Risk (SVaR) and a weighting factor of 25%.

The risk methodology for Proprietary Swap Transaction is the Value at Risk methodology (VaR). This methodology incorporates a full revaluation method and is based on Zero Curves. In addition, as part of the methodology, the Corporation uses a volatility estimator, a confidence level over 99% and a variable number of days as the MPOR. The Corporation also considers a Stress Risk component to mitigate the procyclicality of margins, calculated with a Stressed Value at Risk (SVaR) and a weighting factor of 25%. Flat Rate applies for particular Basket Share where insufficient historical prices prevail.

Please refer to Sections 76.1, 6.2 and 7-26.6 for additional details on the Core Base Initial Margin and Swap Base Initial Margin calculation.

With respect to the Limited Clearing Members, the Core Base Initial Margin is multiplied by the Effective Ratio to calculate the Adjusted Core Base Initial Margin. Please refer to Section 76.3 for additional details on Effective Ratio Recalibration.

1.1.1.2 Additional Margins

¹ Positions on a security issued by the Clearing Member or its Affiliates or positions for which the Underlying Interest is a security issued by the Clearing Member or its Affiliates. The same calculation method used for Fixed Income Transactions is applied to the physical delivery of Government of Canada Bond Futures.

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In addition to the Core Base Initial Margin (or Adjusted Core Base Initial Margin, as the case may be), and the Swap Base Initial Margin, the Corporation requires Margin Deposits for the following Additional Margins:

- (a) Additional Margin for Market Liquidity Risk
- (b) Additional Margin for Specific Wrong-Way Risk
- (c) Additional Margin for Mismatched Settlement Risk
- (d) Additional Margin for Intra-Day Variation Margin Risk
- (e) Additional Margin for Unpaid Option Premium Exposure Risk
- (f) Additional Margin for Banking Holiday Risk
- (g) Additional Margin for Variation Margin Delivery Risk
- (h) Additional Margin for Capital Margin-Risk
- (i) Additional Margin for Uncovered Risk of Limited Clearing Members
- (j) Additional Margin for Intra-Day GCM Risk
- (k) Additional Margin for Undeclared GCM Positions Risk
- (l) Additional Margin for Stress Test Risk
- (m) Additional Margin for Dividend Payment Risk
- ~~(n)~~ Any other Additional Margins

The following table evidences the type of Additional Margins that will be required by CDCC for each type of products:

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<u>Additional Margins</u>	<u>Applicable products</u>
<u>Additional Margin for Market Liquidity Risk</u>	<u>All products</u>
<u>Additional Margin for Specific Wrong-Way Risk</u>	<u>Futures, Fixed Income Transactions, Options, Unsettled Items, Proprietary Swap Transactions</u>
<u>Additional Margin for Mismatched Settlement Risk</u>	<u>Fixed Income Transactions</u>
<u>Additional Margin for Intra-Day Variation Margin Risk</u>	<u>Futures, Fixed Income Transactions and Proprietary Swap Transactions</u>
<u>Additional Margin for Unpaid Option Premium Exposure Risk</u>	<u>Options</u>
<u>Additional Margin for Banking Holiday Risk</u>	<u>Futures, Options, Unsettled Items, Proprietary Swap Transactions</u>
<u>Additional Margin for Variation Margin Delivery Risk</u>	<u>Fixed Income Transactions</u>
<u>Additional Margin for Capital Risk</u>	<u>All products</u>
<u>Additional Margin for Uncovered Risk of Limited Clearing Members</u>	<u>Fixed Income Transactions</u>
<u>Additional Margin for Intra-Day GCM Risk</u>	<u>Futures</u>
<u>Additional Margin for Undeclared GCM Positions Risk</u>	<u>Futures</u>
<u>Additional Margin for Stress Test Risk</u>	<u>Proprietary Swap Transactions</u>
<u>Additional Margin for Dividend Payment Risk</u>	<u>Proprietary Swap Transactions</u>
<u>Any other Additional Margins</u>	<u>All products</u>

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Additional Margin for Intra-Day GCM Risk

The Additional Margin for Intra-Day GCM Risk is requested for uncovered intra-day exposure for eligible positions under the GCM Regime in a Client Account Omnibus Account.

The uncovered intra-day exposure is calculated by taking the difference between the intra-day Core Base Initial Margin requirement and the previous Business Day's Core Base Initial Margin requirement based on the CDCC Book Positions and on a net basis, and including the Variation Margin for Options. When calculating the value of Additional Margin for Intra-Day GCM Risk, the value cannot be lower than zero.

Additional Margin for Undeclared GCM Positions Risk

This Additional Margin addresses the risk exposure that arises if a Clearing Member does not fully declare GCM Regime eligible positions on Futures and Futures Options in the GCM Declaration File. This risk is determined by comparing, on a net basis, the aggregated positions in the GCM Declaration File and the related CDCC Book Positions to validate whether they match. Any undeclared positions are considered as naked positions and treated separately in a specific Risk Account ("GCM Balance Risk Account"), i.e. no netting occurs between the longs and shorts. The aggregated value in the GCM Balance Risk Account is requested from the Clearing Member as Additional Margin for Undeclared GCM Positions Risk. This Additional Margin is calculated on a daily basis.

Additional Margin for Market Liquidity Risk

~~As mentioned in Section 1.1.1.1, the~~ The applicable Base Initial Margin requirement is intended to cover potential portfolio losses and market risks over a variable number of days defined as the MPOR. This Additional Margin covers the liquidity risk arising when the Corporation has to close-out positions at a price different ~~than~~ from the market price.

The Additional Margin for Market Liquidity Risk methodology will consider an absolute surcharge or a relative surcharge for positions exceeding pre-determined thresholds.

The absolute surcharge is a fixed dollar amount applied on a specific contract or transaction or a group of contracts or transactions. The relative surcharge is applied against the specific applicable Base Initial Margin of the specific contract or transaction or a group of contracts or transactions.

The thresholds are determined based on quantitative adjustments such as the trading volume of the product ~~or~~ Underlying Interest, Eligible Share or Eligible Index, the volatility of the product ~~or Underlying Interest~~, and the average ~~amount~~ value of bids in the primary market auctions for real return bonds. In addition to these adjustments, the Corporation may also apply qualitative adjustments.

The threshold and surcharge values are updated by CDCC from time to time.

Additional Margin for Specific Wrong-Way Risk

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The risk covered by the Additional Margin for Specific Wrong-Way Risk arises when the exposure of a Clearing Member in its own products² is adversely correlated with the credit worthiness of that Clearing Member. The Additional Margin for Specific Wrong-Way risk aims to measure the risk exposure that represents the net wrong-way exposure less any eligible right-way exposure. For each situation described in the section below, the right-way exposure is limited to the value of the wrong-way risk exposure.

CDCC has identified four specific situations where the risk exists:

- (a) **Call Options:** When a Clearing Member holds a long Call Option position on the shares issued by itself or its Affiliates, the Option Price or the OTCI Option Price for OTCI Securities Options, as the case may be, is charged as Additional Margin for Specific Wrong-Way Risk. However, the value of all short Call Options for which the Underlying Interest is a security issued by itself or its Affiliates will reduce the amount charged as Additional Margin for Specific Wrong-Way Risk.
- (b) **Put Options:** When a Clearing Member holds a short Put Option position for which the Underlying Interest is a security issued by itself or its Affiliates, the full strike value amount minus the Option Price or the OTCI Option Price for OTCI Securities Options is charged as Additional Margin for Specific Wrong-Way Risk. For a long Put Option position for which the Underlying Interest is a security issued by itself or its Affiliates, the Option Price or the OTCI Option Price for OTCI Securities Options minus the full strike value amount is charged as Additional Margin for Specific Wrong-Way Risk.
- (c) **Share Futures:** When a Clearing Member holds a long Share Futures position for which the Underlying Interest is a security issued by itself or its Affiliates, the full settlement value amount is charged as Additional Margin for Specific Wrong-Way Risk. However, any short Share Futures position for which the Underlying Interest is a security issued by itself or its Affiliates will reduce the amount charged as Additional Margin for Specific Wrong-Way Risk.
- (d) **Unsettled Items:** When a Clearing Member holds an Unsettled Item position for which the Underlying Interest is a security issued by itself or its Affiliates, the last price of the Underlying Interest is used for the calculation of the Additional Margin for Specific Wrong-Way Risk. Depending if the Unsettled Item position results from an exercise or an assignment, it could either increase or lower the Additional Margin for Specific Wrong-Way Risk.

The Additional Margin for Specific Wrong-Way Risk is netted ~~and capped~~ at the product level. ~~The value and~~ cannot be lower than zero.

Additional Margin for Mismatched Settlement Risk

² A Clearing Member has exposure in its own products when the Clearing Member holds: 1) Positions on a security issued by the Clearing Member or its Affiliates, 2) positions for which the Underlying Interest is a security issued by the Clearing Member or its Affiliates, 3) positions on a Canadian depositary receipt for which the underlying share is a security issued by the Clearing Member or its Affiliates, or 4) positions for which the Underlying Interest is a Canadian depositary receipt for which the underlying share is a security issued by the Clearing Member or its Affiliates. ~~...~~

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The Additional Margin for Mismatched Settlement Risk is requested if the risk arising from a lag between the settlement of positions results in a margin offset. More specifically, CDCC faces a risk that a Clearing Member settles a position that provides ~~either a~~ Core Base Initial Margin offset with other positions on the rest of the portfolio.

Given the fact that margin offsets are ~~granted~~applied when Fixed Income ~~Transactions~~Transaction portfolios have both long and short positions without taking into account the Settlement Dates, this Additional Margin charge will be calculated for the positions that could cause mismatched settlement exposure prior to a default.

In order to address such risk, CDCC will perform forward looking analysis to forecast material changes in the Core Base Initial Margin as a result of settlements of Fixed Income Transactions.

The Additional Margin for Mismatched Settlement Risk will be calculated by using the maximum of several scenarios representing the potential cases that may trigger a mismatched settlement risk following the settlement of positions, minus the Core Base Initial Margin.

Additional Margin for Intra-Day Variation Margin Risk

The risk covered by the Additional Margin for Intra-Day Variation Margin Risk arises when market volatility of cleared volumes produces unusually large Variation Margin exposures. The Additional Margin for Intra-Day Variation Margin Risk requirement corresponds to the sum of the Additional Margin for Intra-Day Variation Margin Risk in respect of Futures, the Additional Margin for Intra-Day Variation Margin Risk in respect of Fixed Income Transactions and the Additional Margin for Intra-Day Variation Margin Risk in respect of ~~Fixed Income~~Proprietary Swap Transactions. When calculating the value of Additional Margin for Intra-Day Variation Margin Risk for Futures ~~or~~, Fixed Income Transactions, or Proprietary Swap Transaction the value cannot be lower than zero.

In order to address the intra-day variation margin risk, the Corporation may call for Additional Margin from each Clearing Member if it determines that the intra-day exposure for Futures and ~~for~~ Fixed Income Transactions of the Clearing Member exceeds certain limits (thresholds expressed in percentage) in relation to ~~the~~such Clearing ~~Member's~~Member's respective Core Base Initial Margin. The Additional Margin for Intra-Day Variation Margin Risk specific to Futures and Fixed Income Transactions is subject to a minimum value (floor).

The same methodology is applied to Proprietary Swap Transactions. More specifically, the Corporation may call for Additional Margin from a Swap Clearing Member if it determines that the intra-day exposure for Proprietary Swap Transactions of such Swap Clearing Member exceeds certain limits (thresholds expressed in percentage) in relation to the Clearing Member's respective Swap Base Initial Margin. The Additional Margin for Intra-Day Variation Margin Risk specific to Proprietary Swap Transactions is subject to a minimum value (floor).

Additional Margin for Unpaid Option Premium Exposure Risk

The Additional Margin for Unpaid Option Premium Exposure Risk covers the risk incurred by the Corporation in guaranteeing to each Clearing Member the settlement of the Net

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Daily Premium on a daily basis. To cover this potential risk, the Corporation accumulates during the Business Day the value of the trades that are not yet settled. At the time of the calculation, if a Clearing Member is expected to make a cash settlement to the Corporation, the value is requested from the Clearing Member, as Additional Margin for Unpaid Option Premium Exposure Risk.

Additional Margin for Banking Holiday Risk

This Additional Margin considers the risk associated with uncovered exposures arising from new trades and the additional market risk that the Corporation could face during ~~the~~ Banking Holiday.

The incremental exposure is based on the historical fluctuation of the applicable Core Base Initial Margin requirement or Swap Base Initial Margin requirement over a specific period and it is designed to capture the potential uncovered Core Base Initial Margin requirement or Swap Base Initial Margin requirement arising from new trades during ~~the~~ Banking Holiday.

With respect to the additional market risk, one (1) more ~~Business~~ day is added to the MPOR of the Core Base Initial Margin requirement or the Swap Base Initial Margin requirement, as applicable, for the eligible tradeable products during ~~the~~ Banking Holiday. This resulting Core Base Initial Margin requirement or Swap Base Initial Margin requirement, as applicable, is then compared to the Core Base Initial Margin requirement or Swap Base Initial Margin requirement calculated with the MPOR. The difference between the two values corresponds to the additional market risk.

Additional Margin for Variation Margin Delivery Risk

This Additional Margin requirement covers the risk incurred by the Corporation in guaranteeing to each Clearing Member having pledged specific securities to cover its Net Variation Margin requirement, the return of such specific securities, in the event that another Clearing Member to which the specific securities were initially delivered fails to return such specific securities and becomes a Non-Conforming Member or is suspended. In this case, the Corporation will have to buy the specific securities in the market to return such securities to the Clearing Member that had initially pledged the specific securities. To cover this potential risk, an amount representing a percentage of the total Variation Margin requirement or a specific percentage set at the securities level will be collected from the Clearing Member who initially receives the specific securities, as Additional Margin for Variation Margin Delivery Risk.

Additional Margin for Capital ~~Margin~~ Risk

This Additional Margin intends to measure the credit exposure of all Clearing Members (excluding Limited Clearing Members) that arises if the exposure of a Clearing Member is superior to its capital amount.

For Core Products, the Corporation compares the Clearing Member's capital amount to the Core Base Initial Margin requirement based on the CDCC Book Positions. In the event that the Core Base Initial Margin of the Clearing Member exceeds the capital amount, Additional Margin of a minimum of 50% of the excess will be collected from the Clearing Member. The proportion value is updated by CDCC from time to time.

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For Proprietary Swap Transactions, the Corporation compares the Clearing Member's capital amount to the Swap Base Initial Margin requirement. In the event that the Swap Base Initial Margin exceeds the capital amount, Additional Margin of a minimum of 50% of the excess will be collected from the Clearing Member. The proportion value is updated by CDCC from time to time.

For the purpose of this Additional Margin, the capital level is derived from regulatory reports received on a regular basis. The Corporation uses the net allowable assets, the net Tier 1³, the CET1⁴ capital or any other comparative measure to assess the capital level of each Clearing Member not subject to the latter.

Additional Margin for Uncovered Risk of Limited Clearing Members

This Additional Margin covers the risk exposure that arises if the total value of the risk represented by a Limited Clearing Member to the Corporation is greater than the aggregate amount of the Limited Clearing Member's Adjusted Core Base Initial Margin and the total value of the Clearing Fund.

The risk represented by the Limited Clearing Member is determined by the Corporation by calculating the estimated loss that the Corporation would face in extreme but plausible market conditions. This Additional Margin is calculated on a daily basis and is required from Limited Clearing Members only.

Additional Margin for Stress Test Risk

This Additional Margin covers the risk that arises if the intra-month Uncovered Residual Credit Risk for a particular Swap Clearing Member exceeds 90% of the size of the Swap Tranche of the Clearing Fund but is inferior to 100% of the size of the Swap Tranche of the Clearing Fund. In the event that the Uncovered Residual Credit Risk of a Swap Clearing Member exceeds 90% of the size of the Swap Tranche of the Clearing Fund, Additional Margin representing the difference between the Uncovered Residual Credit Risk augmented by a factor of 15% and the Swap Tranche of the Clearing Fund will be collected from the Swap Clearing Member.

This Additional Margin is calculated on a daily basis and is required from Swap Clearing Members only.

Additional Margin for Dividend Payment Risk

This Additional Margin covers the risk that arises following the declaration of a Cash Distribution in the manner prescribed in Section D-807 of the Rules.

Any Other Additional Margins

³ Sum of CET1 capital and capital instruments meeting the criteria for Additional Tier 1, related surplus, additional qualifying minority interest and regulatory adjustments, the whole as per Basel III.

⁴ Sum of common shares and stock surplus, retained earnings, other comprehensive income, qualifying minority interest and regulatory adjustments.

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Any other Additional Margins as set out in the Rules (other than required pursuant to Rule D-607).

1.1.2 Variation Margin

~~The Variation Margin requirement covers the risk due to the change in price of a Derivative Instrument or an OTCI or a change in the Floating Price Rate since the previous evaluation in accordance with the Rules.~~ The following table evidences the type of Variation Margin coverage that will be required by CDCC for each type of products⁵. The reference to “collateralized” means that a pledge of collateral is provided in respect of Variation Margin. The reference to “cash-settled” means that the daily changes that occur as a result of market fluctuations are paid/settled on each Business Day or Swap Business Day, as applicable.

Products	Variation Margin Coverage Type
Options	Collateralized
Futures	Cash-Settled
Fixed Income Transactions	Collateralized (subject to Variation Margin process)
Unsettled Items	Collateralized
<u>Proprietary Swap Transactions</u>	○ <u>No Variation Margin - Cash-Settled</u>

1.1.2.1 Options

For Options, the Variation Margin is collateralized every Business Day and at each Intra-Day Margin Call based on the Option Price reported by the applicable Exchange, or the last OTCI Option Price for OTCI Securities Options⁵, as the case may be, and, in the event of the unavailability or inaccuracy of such price, the Corporation shall set such price in accordance with the best information available as to the correct price.

1.1.2.2 Futures

For Futures, the Variation Margin is cash settled every Business Day based on the last Settlement Price reported by the applicable Exchange, and, in the event of the unavailability or inaccuracy of such price, the Corporation shall set the last Settlement Price in accordance with the best information available as to the correct price.

⁵ Please refer to Section 67.4 for additional details on the theoretical price calculation of OTCI Options in respect of Securities-Options.

1.1.2.3 Fixed Income Transactions

Capitalized terms used in this Section 1.1.2.3 and not otherwise defined in this Risk Manual or Rule A-2 have the meanings given to them in Section D-601 of the Rules.

The Variation Margin requirement⁶ in respect of each Fixed Income Transaction is calculated on a daily basis and represents the sum of the Price Valuation Requirement and the Repo Rate Requirement, ~~each as defined in Section D-601 of the Rules.~~

Price Valuation Requirement

The Price Valuation Requirement represents, 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.

Repo Rate Requirement

The Repo Rate Requirement represents a change in the current Floating Price Rate and means, in respect of a Repurchase Transaction, an amount which is 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.

1.1.2.4 Proprietary Swap Transactions

For Proprietary Swap Transactions, the daily changes that occur as a result of market fluctuations, also referred as the Swap Net Settlement Amount, are cash-settled every Swap Business Day and is calculated in accordance with Section D-816(3) of the Rules.

~~1.1.2.4~~ 1.1.2.5 Unsettled Items

The Variation Margin for Unsettled Items with respect to both Options and Futures is collateralized. With respect to Variation Margin for Unsettled Items related to Options, the Corporation calculates a Variation Margin requirement equal to the intrinsic value of the Option multiplied by the position and the contract size. With respect to Variation Margin for Unsettled Items related to Futures, the Corporation calculates a Variation Margin requirement equal to the difference between the last Settlement Price of the Futures and the price of the Underlying Interest related to the Futures, multiplied by the position and the contract size.

1.1.3 Account Structure, Netting and Risk Aggregation

⁶ The Variation Margin requirement for Fixed Income Transactions is not applied for physical delivery of Government of Canada Bond Futures. The applicable Variation Margin requirement for Fixed Income Transactions is rounded up to the nearest \$1 of nominal value.

1.1.3.1 Account Types and Risk Accounts

The Corporation uses five types of accounts⁷ for position management of Firm and Client: 1) Firm Account, 2) Market Maker Firm Account, 3) Client Account Individual, 4) Client Account Omnibus, 5) Market Maker Non-Firm Account.

The Corporation uses Risk Accounts for the Initial Margin requirement calculation. Risk aggregation is determined based on the position management account type and the eligibility of the positions under the GCM Regime or the Non-GCM Regime.

More specifically, for the Firm Account and the Market Maker Firm Account, risk aggregation is done directly at the account level, i.e. each account has a corresponding Risk Account (“Firm Risk Account”) with the exception of the Proprietary Swap Transactions where all the Firm Accounts are commingled into one Risk Account. For the Client Account Individual and the Market Maker Non-Firm Account, positions are further segregated in two Risk Accounts (“GCM Risk Account”, “Non-GCM Risk Account”) depending on the eligibility regime. Hedge Open Positions, identified in these accounts by Clearing Members as eligible to reduce the market risk for an individual client, are also treated under the Non-GCM Risk Account.

For Client Account Omnibus, the treatment is different depending on the eligibility regime. For positions eligible under the GCM Regime, an additional risk segregation is done, where each account/positions disclosed from the GCM Declaration File (rather than the CDCC Book Positions) are mapped to an individual client Risk Account (“Declared GCM Risk Account”). Whereas, positions eligible under the Non-GCM Regime and based on CDCC Book Position, are carried out in a single Risk Account (“Non-GCM Risk Account”).

1.1.3.2 Short Positions, ~~Account Types, Risk Accounts and Positions Netting~~

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 in accordance with Sections A-212 and A-706 of the Rules.

1.1.3.3 Collateral-in-Margin

Swap Clearing Members are entitled to deposit certain Valued Securities that will be considered in the Swap Initial Margin requirements calculation in respect of positions in Proprietary Swap Transaction(s).

Account Types, Risk Accounts and Positions Netting

The applicable Initial Margin requirement is calculated at the Risk Account level on a net basis for all account types and asset classes, except for option positions in Client Account Omnibus and eligible under the Non-GCM Regime, for which only short Options are taken into account when computing the Core Initial Margin.

~~1.1.3.3.1~~ 1.1.3.4 Margin Aggregation

⁷ Please refer to Section A-102 of the Rules for definitions related to these 5 account types.

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The Margin requirement of each Clearing Member is composed of the applicable Initial Margin requirement and the applicable Variation Margin requirement.

The calculation is made at the Risk Account level and then aggregated at the corresponding margin account level pursuant to Rule A-7 Margin Requirements: Firm Margin Account, GCM Regime Margin Account and Non-GCM Regime Margin Account, and Rule A-7A Swap Margin Requirements. However, operationally the Margin requirement is subject to the following aggregation, subject to the applicable type of products being cleared by the Clearing Member:

Initial Margin Requirement (including the Variation Margin for Options and Unsettled Items)

The Initial Margin requirement for all products is aggregated as follows:

- (a) The Core Base Initial Margin (or Adjusted Core Base Initial Margin, as the case may be) ~~is and the Swap Base Initial Margin are~~ calculated at the Risk Account level. For Options, Futures and Unsettled Items, the margin results are calculated at the Combined Commodity level and the Core Base Initial Margin corresponds to the sum of all Combined Commodities. For Fixed Income Transactions, and Proprietary Swap Transactions the Core Base Initial Margin ~~represents and the Swap Base Initial Margin, respectively, represent~~ the sum of all VaR Risk Groups. The applicable Base Initial Margin at the Risk Account level corresponds to the sum of the Core Base Initial Margin for Options, Futures and Unsettled Items ~~and~~, the Core Base Initial Margin for Fixed Income Transactions and the Swap Base Initial Margin for Proprietary Swap Transactions.
- (b) The Variation Margin for Options and Unsettled Items is calculated at the Risk Account level and then added to the Core Base Initial Margin (or Adjusted Core Base Initial Margin, as the case may be).
 - If the Variation Margin for Options and Unsettled Items is negative, this will result in a margin credit⁸ decreasing the aggregate value of the Core Base Initial Margin for Options and Unsettled Items.
 - If the Variation Margin for Options and Unsettled Items is positive, this will result in a margin debit increasing the aggregate value of the Core Base Initial Margin for Options and Unsettled Items.
- (c) The Initial Margin requirement in respect of each Clearing ~~Member~~ Member's margin accounts is calculated by aggregating for all Risk Accounts the value of (1) the Core Base Initial Margin (or Adjusted Core Base Initial Margin, as the case may be) and Swap Base Initial Margin and the Variation Margin for Options and Unsettled Items and (2) ~~the following Additional Margins calculated at the Clearing Member level: Additional Margin for Market Liquidity Risk, Additional Margin for Specific Wrong-Way Risk, Additional Margin for Mismatched Settlement Risk, Additional Margin for Intra-Day Variation Margin Risk, Additional Margin for Unpaid Option Premium Exposure Risk, Additional Margin for Banking Holiday Risk,~~

⁸ For a given Risk Account, the margin credit is capped to the Core Base Initial Margin for Options, Futures and Unsettled Items.

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~~Additional Margin for Variation Margin Delivery Risk, Additional Capital Margin Risk, Additional Margin for Uncovered Risk of Limited Clearing Members, Additional Margin for Intra-Day GCM Risk, Additional Margin for Undeclared GCM Positions Risk and any other Additional Margins as set out in the Rules (other than required pursuant to Rule D-607).~~ Additional Margins are required at the Firm Margin Account level, except for Additional Margin for Intra-Day GCM Risk and Additional Margin for Undeclared GCM Positions Risk required at the GCM Regime Margin Account level.

Variation Margin for Futures

The Variation Margin for Futures (the net value of gains and losses) is aggregated at the Clearing Member level (for all Risk Accounts).

Variation Margin for Fixed Income Transactions

The Variation Margin requirement for Fixed Income Transactions is aggregated at the Clearing Member level.

Proprietary Swap Transactions

The daily changes that occur as a result of market fluctuations for Proprietary Swap Transactions, also referred to as the Swap Net Settlement Amount, in accordance with Section D-816(3) of the Rules, are aggregated at the Clearing Member level.

1.2 Clearing Fund

1.1.41.2.1 Clearing Fund Requirement

Rule A-6 governs the rights and obligations of the Corporation and the Clearing Members, excluding Limited Clearing Members (LCMs), with respect to the Clearing Fund.

The Clearing Fund is a reserve fund put in place by the Corporation to absorb the deficit that may occur upon the default of a Clearing Member and its Affiliates when the suspended Clearing Member's prefunded financial resources do not cover its market exposure.

This fund is structured to mitigate the largest Uncovered Residual Credit Risk under extreme but plausible market conditions of all Clearing Members (excluding Limited Clearing Members) and of their Affiliate(s).

The Clearing Fund is composed of two tranches, the Core Tranche and Swap Tranche. Each tranche is sized independently.

Core Tranche

On a monthly basis, the Core Tranche of the Clearing Fund is reviewed and updated according to the following methodology which considers two specific elements:

- The size of the Core Tranche of the Clearing Fund is based on the largest Uncovered Residual Credit Risk of all Clearing Members and of their Affiliate(s) (excluding Limited Clearing Members) with respect to Core Products over the last sixty (60) Business Days. The size is then increased by 15%.

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- Each Clearing Member's Clearing Fund Requirement amount specific to the Core Tranche is equal to the weight of its respective Core Base Initial Margin requirement based on the CDCC Book Positions over the last sixty (60) Business Days multiplied by the size of the Clearing Fund-Core Tranche. A Clearing Member's contribution is subject to a minimum floor (Core Base Deposit), which varies according to the Clearing Member's type of activity in respect of Core Products.

On an intra-month basis, the Corporation monitors and controls the size of the Clearing Fund-Core Tranche and may adjust it upward between monthly re-evaluations. If the largest Uncovered Residual Credit Risk applicable to Core Products exceeds 90% of the size of the Clearing Fund-Core Tranche but is inferior to less than 100% of the size of the Clearing Fund-Core Tranche, the size of the Clearing Fund-Core Tranche is increased by 15% of the current size. If the largest Uncovered Residual Credit Risk applicable to Core Products exceeds 100%, % of the size of the Clearing Fund-Core Tranche, the size of the Core Tranche is updated based on the methodology described above. In both cases, the sizeCore Tranche of the Supplemental Liquidity Fund shouldwill also be updated based on the methodology decribeddescribed in Section 1.3.

Notice of any additional Deposits to the Core Tranche of the Clearing Fund required as a result of the calculations set out above will be provided to Clearing Members in accordance with Section A-603(2) of the Rules and such additional Deposits shall be made in accordance with Section A-603(2) of the Rules.

Swap Tranche

On a monthly basis, the Swap Tranche of the Clearing Fund is reviewed and updated according to the following methodology which considers two specific elements:

- The size of the Swap Tranche is based on the largest Uncovered Residual Credit Risk of all Clearing Members and of their Affiliate(s) (excluding Limited Clearing Members) with respect to Proprietary Swap Transactions over the last sixty (60) Business Days. The size is then increased by 15%.
- Each Clearing Member's Clearing Fund Requirement amount specific to the Swap Tranche is equal to the weight of its respective Swap Base Initial Margin over the last sixty (60) Business Days multiplied by the size of the Swap Tranche. A Clearing Member's contribution is subject to a minimum floor (Swap Base Deposit), which varies according to the Clearing Member's activity in respect of Proprietary Swap Transactions.

On an intra-month basis, the Corporation monitors and controls the size of the Swap Tranche and may adjust it upward between monthly re-evaluations. If the largest Uncovered Residual Credit Risk applicable to Proprietary Swap Transactions exceeds 90% of the size of the Swap Tranche but is less than 100% of the size of the Swap Tranche, the size of the Swap Tranche is increased by 15% of the current size and will be collected from the Swap Clearing Member causing the increase in the Uncovered Residual Credit Risk. This Additional Margin is also described in Section 1.1.1.2 Additional Margin.

If the largest Uncovered Residual Credit Risk applicable to Proprietary Swap Transactions exceeds 100% of the size of the Swap Tranche, the size of the Swap Tranche is updated based on the methodology described above. In both cases, the Supplemental Liquidity Fund applicable to Proprietary Swap Transactions will also be updated based on the methodology described in Section 1.3.

Notice of any additional Deposits to the Swap Tranche of the Clearing Fund required as a result of the calculations set out above will be provided to Clearing Members in accordance with Section A-603(2) of the Rules and such additional Deposits shall be made in accordance with Section A-603(2) of the Rules.

4.21.3 Supplemental Liquidity Contributions

Rule A-6A governs the rights and obligations of the Corporation and the Clearing Members (excluding LCM) with respect to the Supplemental Liquidity Fund.

The Supplemental Liquidity Contributions will be required by the Corporation at its discretion, in order to, among other reasons, absorb the liquidity exposures that may occur upon the default of a Clearing Member and its Affiliates when the suspended Clearing Member's prefunded financial resources and the available Clearing Fund resources (including the Clearing Fund deposits made pursuant to Rule A-610) over the multi-day Default Management Period do not cover the Corporation's and the Clearing Member's liquidity exposure. The Supplemental Liquidity Fund is structured to mitigate the largest Uncovered Residual Liquidity Risk under extreme but plausible market conditions of all Clearing Members (excluding LCM) and of their Affiliate(s).

The Supplemental Liquidity Fund is composed of two ~~Tiers~~, Tranches, the Core Tranche and Swap Tranche. Each Tranche is sized independently.

Core Tranche

The Core Tranche of the Supplemental Liquidity Fund is composed of two Tiers. Tier 1 contributions are maintained during all the calendar ~~month~~months it is required for while Tier 2 contributions are maintained during monthly expiry periods only. These two tiers represent the maximum amount of Supplemental Liquidity Contributions that the Corporation may require, at its discretion.

On a monthly basis, Tier 1 contributions and Tier 2 contributions to the Core Tranche of the Supplemental Liquidity Fund are reviewed and updated according to the following methodology:

- The maximum size of the Tier 1 contributions is based on the largest Uncovered Residual Liquidity Risk applicable to the products included in the Core Tranche of all Clearing Members and of their Affiliate(s) (excluding LCM) over the non-expiry days of the last sixty (60) Business Days (the "Tier 1 Uncovered Residual Liquidity Risk"). The size is then increased by 15%. The Corporation may require, at its discretion, a different amount.
- The maximum size of the Tier 2 contributions is based on the positive difference between 1) the largest Uncovered Residual Liquidity Risk applicable to the products included in the Core Tranche of all Clearing Members and of their Affiliate(s) (excluding LCM) over the expiry days of the last sixty (60) Business Days (such period shall cover a minimum of three expiry periods, as defined below) and 2) the Tier 1 Uncovered Residual Liquidity Risk. The size is then increased by 15%. The Corporation may require, at its discretion, a different amount.
- On an intra-month basis, the Corporation monitors and controls the size of the Supplemental Liquidity Fund and may adjust it upward between monthly re-evaluations. If the largest daily Liquidity Shortfall exceeds 90% of the available size of the Core Tranche of the Clearing Fund and the Supplemental Liquidity Fund combined (including the Clearing Fund deposits made pursuant to Rule A-610 and the Supplemental Liquidity Contributions made pursuant to Rule A-6A08), the size of the Core Tranche Supplemental Liquidity Fund (both Tier 1 and Tier 2) is updated based on the methodology described above.

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- The allocation of the Core Tranche of the Supplemental Liquidity Fund is based on each Clearing Member's average Uncovered Residual Liquidity Risk applicable to the products included in the Core Tranche for the past sixty (60) Business Days. For Tier 1 contributions, the allocation is based on the Clearing Member's average Uncovered Residual Liquidity Risk applicable to the products included in the Core Tranche over the non-expiry days of the last sixty (60) Business Days. For Tier 2 contributions, the allocation is based on the Clearing Member's average Uncovered Residual Liquidity Risk applicable to the products included in the Core Tranche over the expiry days of the last sixty (60) Business Days (such period shall cover a minimum of three expiry periods, as defined below).

For the purposes of the Core Tranche of this Section 1.3, an "expiry period" generally covers two "expiry days": the expiry day and the next Business Day.

Swap Tranche

The Swap Tranche of the Supplemental Liquidity Fund consists of two components: Main Component and Prefunded Component.

The Main Component of the Swap Tranche of the Supplemental Liquidity Fund is a single-tier fund. It is evaluated on a daily basis, based on the largest Uncovered Residual Liquidity Risk over the short-term (3 days) and mid-term (25 days) lookback periods, as well as the average Uncovered Residual Liquidity Risk over the long-term lookback period (60 days).

Main Component:

On a daily basis, the size of the Main Component of the Swap Tranche of the Supplemental Liquidity Fund is reviewed and updated by taking the greater of:

(1) A weighted average Uncovered Residual Liquidity Risk (URLR):

The weighted average URLR is calculated daily, based on (i) the largest short-term over the short lookback period URLR of all Swap Clearing Members and of their Affiliate(s) and (ii) the largest mid-term URLR over the medium lookback period of all Swap Clearing Members and of their Affiliate(s).

(2) A long-term floor:

The long-term floor of URLR is calculated daily, based on the average of the daily weighted average URLR over the long lookback period.

The allocation of the Main Component of the Swap Tranche of the Supplemental Liquidity is based on each Swap Clearing Member's largest mid-term URLR applicable to Proprietary Swap Transactions.

Pre-funded Component:

In addition to the Main Component, CDCC includes a Prefunded Component, which is charged during the period where Proprietary Swap Transaction activity is deemed to be more elevated.

The Prefunded Component is to cover the potential increase of the daily URLR from one or more Swap Clearing Members during the period where Proprietary Swap Transaction activity is deemed to be more

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elevated. The primary causes for such an increase could be due to (i) an increase in market volume related to the expirations of Proprietary Swap Transactions, (ii) an increase in market volume related with trading activity changes for one or more Swap Clearing Members, or (iii) any other market factors that may impact liquidity exposures.

The Prefunded Component may be requested by CDCC at its discretion and at any time including, without limitation, in expectation of any relevant periods when Proprietary Swap Transaction activity is more elevated. In the event that a Swap Clearing Member provides CDCC with a Prefunded Component of Supplemental Liquidity Fund contribution, CDCC may return such amount to the Swap Clearing Member in full when such amount is not required any more, or in part when CDCC determines that the Swap Clearing Member's anticipated level of Proprietary Swap Transaction activity in the near future may reasonably be expected to remain at a level materially different than its historical level of activity, among other reasons.

Notwithstanding the foregoing, in the context of the period when Proprietary Swap Transaction activity is deemed to be elevated:

Step 1: CDCC will calculate and determine if a Prefunded Component of the Swap Tranche of the Supplemental Liquidity Fund must be required from a Swap Clearing Member, and require such a Prefunded Component, on the third Swap Business Day that precedes the period when Proprietary Swap Transaction activity is elevated starts. The amount calculated as part of this Step 1 remains valid until the end of the period.

Step 2: On the first Swap Business Day of the period when Proprietary Swap Transaction activity is elevated, CDCC will calculate and update the Swap Clearing Member's Supplemental Liquidity Fund requirement. If the difference between (i) the amount calculated in Step 2, and (ii) the total of any previously requested Main Component plus the amount calculated and requested in Step 1 is:

- (a) greater than zero, CDCC will, on that Swap Business Day, require the Swap Clearing Member to provide CDCC with the incremental requirements; or
- (b) lower than zero, CDCC may, after the end of the period when Proprietary Swap Transaction activity is deemed to be elevated, and subject to other provisions herein, return, partially return or keep the excess of the Prefunded Component amount.

Section 2 : SGC REPURCHASE TRANSACTIONS

This section of the Risk Manual is applicable only to the clearing of SGC Repurchase Transactions by CDCC, and to the SGC Clearing Members. An SGC Repurchase Transaction means a bilateral repurchase agreement originally entered into between an SGC Clearing Member and the Trust which is submitted to CDCC for clearing during the SGC Repurchase Transaction Submission Period, pursuant to which an SGC Clearing Member agrees to sell SGC Securities in a particular SGC Securities Basket to the Trust. A simultaneous agreement is created by the SGC Clearing Member to purchase the SGC Securities or Equivalent SGC Securities in a particular SGC Securities Basket from the Trust at the Repurchase Date, and by the SGC Maturity Settlement Time, at a Repurchase Price to be paid by the SGC Clearing Member to the Trust, and governed by CDCC Rule D-7.

2.1 ~~2.1~~ Repurchase Transactions Risk Management

2.1.1 SGC Initial Securities Adjustment

The SGC Initial Securities Adjustment means the application of margins published by Bank of Canada for SLF Securities on the Bank of Canada website or for SGC Securities which are not SLF Securities, as published by the Corporation, as adjusted by the Corporation from time to time for the SGC Securities included in each SGC Securities Basket as published on the Corporation's website. CDCC will monitor the list of SLF Securities and haircuts, and if required, review the list of SGC Securities and the selection of the haircuts in order to keep the SGC Securities Basket specifications aligned with these Bank of Canada product features.

The SGC Initial Securities Adjustment acts as an additional layer of credit risk mitigation (over collateralization) in cases where CDCC would have to realize the value of the SGC Securities Basket.

2.1.2 SGC Securities Adjustment

SGC Securities Adjustment means, during the term of an SGC Repurchase Transaction, SGC Securities in an amount (i) equal to the difference between (a) the SGC Market Value of the SGC Securities that are the subject of an SGC Repurchase Transaction and (b) the Purchase Price of the SGC Repurchase Transaction plus (ii) an amount equal to the accrued Price Differential; which SGC Securities are owed to the Trust by an SGC Clearing Member that is a party to such SGC Repurchase Transaction, or by the Trust to such SGC Clearing Member.

- If CDCC proceeds with an SGC Securities Adjustment pursuant to Section D -707 of the Rules at the close of a Business Day:
 - (i) if there is a negative SGC Securities Adjustment, this amount represents the required SGC Securities Adjustment to be sold by the SGC Clearing Member to the Trust by the given timeline; and
 - (ii) if there is a positive SGC Securities Adjustment, this amount represents the required SGC Securities Adjustment to be sold by the Trust to the SGC Clearing Member by the given timeline.
- CDCC may determine, from time to time and for the purpose of Section D-707 of the Rules, the amount of a minimum threshold to be applied to SGC Securities Adjustment once calculated by CDCC (threshold expressed as a percentage). If CDCC proceeds with an intra-day SGC Securities Adjustment and such SGC Securities Adjustment is equal to or exceeds any applicable threshold, CDCC may require the SGC Clearing Member to make available SGC Securities for

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the entire amount of the SGC Securities Adjustment (disregarding the threshold) within the given timeline.

2.2 SGC Concentration Limits

All SGC Securities Baskets will be comprised of the same eligible types of SGC Securities but will be distinguished by separate SCC Initial Securities Adjustments, SGC Securities Adjustments and SGC Concentration Limits. The concentration limits are determined by CDCC for the SGC Securities in a SGC Securities Basket, as published on ~~CDCC's~~[the Corporation's](#) website.

2.3 Credit Rating Downgrade of a SGC Clearing Member

In the event an SGC Clearing Member fails to maintain the required rating as indicated in the Section D-703 of the Rules, the Corporation shall not accept for clearing any new SGC Repurchase Transactions from this SGC Clearing Members. SGC Repurchase Transactions that have already been novated to the Corporation prior to the change of rating may continue to settle.

In the event an SGC Clearing Members fails to maintain the required rating, CDCC will have the right, at its discretion, to apply and require from the impacted SGC Clearing Member any additional risk mitigation measures as CDCC deems appropriate including, without limitation, any additional SGC Securities Adjustment to cover for the additional risks that such a credit rating downgrade may create.

Section 3 ELIGIBLE COLLATERAL

As set out in Section 1 of the Risk Manual, every Clearing Member shall be obligated to deposit Margin with the Corporation, as determined by the Corporation. Margin Deposits must be made in the form of eligible collateral, as specified in this section, in an amount sufficient, taking into account the market value and applicable Haircuts.

3.1 3.1 Forms of Collateral

The following table sets out the form(s) of collateral eligible for each type of product:

<u>Products</u>	<u>Forms of Collateral</u>		
	<u>Initial Margin</u>	<u>Clearing Fund and Supplemental Liquidity Fund</u>	<u>Variation Margin</u>
<u>Options</u>	CAD Cash ⁹ ; <u>Debt Securities issued by the U.S. Government;</u> <u>Debt Securities issued or guaranteed by the Government of Canada;</u> <u>Government of Alberta;</u> <u>Government of British Columbia;</u> <u>Government of Manitoba;</u> <u>Government of Ontario;</u> <u>Government of Quebec;</u> <u>Valued Securities</u>	<u>CAD Cash (for the Core Tranche)</u>	N/A
<u>Futures</u>			N/A
<u>Fixed Income Transactions</u>			<u>Debt Securities issued or guaranteed by the Government of Canada;</u> <u>Government of Alberta;</u> <u>Government of British Columbia;</u> <u>Government of Ontario;</u> <u>Government of Quebec</u>
<u>Unsettled Items</u>			N/A
<u>Proprietary Swap Transactions</u>	<ul style="list-style-type: none"> <u>USD Cash</u> <u>Debt Securities issued and guaranteed by the U.S. Government</u> <u>Valued Securities</u> 	<u>USD Cash (for the Swap Tranche)</u>	N/A

⁹ CDCC reviews and publishes the selection of Non-CAD Currencies from time to time, and the Clearing Members are informed of these reviews by written notice.

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The forms of eligible collateral that may be deposited with CDCC by or on behalf of a Clearing Member ~~with CDCC~~, as prescribed in Rule A-6 (Clearing Fund Deposits) and Rule A-7 (Margin requirements), are one or more of the following assets:

- ~~Cash; Canadian dollar (CAD) Cash is the only form of eligible collateral that can be deposited in the Clearing Fund~~
- Cash;
- Debt Securities;
- Valued Securities

CDCC may, on an exceptional and temporary basis at its sole discretion, exclude certain forms of eligible collateral or accept other forms of collateral.

3.2 ~~3.2~~ Cash

Cash ~~amounts are~~ accepted in Canadian dollars and in a selection of Non-CAD Currencies. ~~CAD Cash is the only form of eligible collateral that can be deposited in the Clearing Fund as specified for each product.~~

CDCC reviews and publishes the selection of Non-CAD Currencies from time to time, and the Clearing Members are informed of these reviews by written notice.

3.3 ~~3.3~~ Debt Securities

3.3.1 ~~3.3.1~~ General Considerations

Debt Securities which fulfill certain minimum criteria may be deemed as an eligible form of collateral. Pursuant to Rule A-708, the following subsections set out the eligibility criteria for Debt Securities.

Acceptance of a Debt Security is conditional on the availability of a price from a source that CDCC determines to be acceptable and reliable.

CDCC establishes, reviews and publishes the list of eligible Debt Securities on a regular basis.

Irrespective of the fact that a Debt Security fulfils all eligibility criteria, CDCC will not accept as collateral from or on behalf of a Clearing Member any Debt Security issued or guaranteed by the Clearing Member itself or its Affiliates.

3.3.2 ~~3.3.2~~ Types of Debt Securities

The Debt Security must be a debt instrument having a fixed and unconditional principal amount.

The coupon rate of the debt instrument must be fixed. Zero coupon bonds are eligible.

~~Furthermore,~~ Real return bonds can be eligible for a specific issuer as determined by CDCC on the list of eligible Debt Securities.

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The Debt Security must not have an embedded option or carry a right of conversion into equity Securities, with the exception of non-financial calls (i.e. "Canada Call").

Saving bonds, floating rate notes, stripped coupons and residual securities are excluded.

3.3.3 ~~3.3.3~~ — Types of Issuers

The ~~eligible~~ Debt Securities must be issued or guaranteed by the Government of Canada, by a provincial government or by the United States ("U.S.") Government, as specified for each product.

3.3.4 ~~3.3.4~~ — Eligible Debt Securities by Issuer

3.3.4.1 ~~2.3.4.1~~ Debt Securities issued by the Government of Canada:

- Treasury bills, bullet bonds and real return bonds.

3.3.4.2 ~~2.3.4.2~~ Debt Securities guaranteed by the Government of Canada:

- Treasury bills, bullet bonds and Debt Securities issued by Canada Housing Trust.

3.3.4.3 ~~2.3.4.3~~ Debt Securities issued by a provincial government:

- Treasury bills and bullet bonds issued by the governments of Alberta, British Columbia, Manitoba, Ontario and Quebec.

3.3.4.4 ~~2.3.4.4~~ Debt Securities guaranteed by a provincial government:

- Bullet bonds issued by Financement-Quebec, Hydro-Quebec and Ontario Electricity Financial Corporation.

3.3.4.5 ~~2.3.4.5~~ Debt Securities issued by the U.S. Government

- Treasury bills, notes, bonds, and Treasury inflation-protected securities (TIPS).

3.3.5 ~~Settlement Procedures~~

~~Debt Securities must be transferable in book-entry form using CDSX of CDS Clearing and Depository Services Inc.~~

3.3.4.6 ~~3.3.6~~ — Currency of Denomination

Debt Securities must be denominated in Canadian dollars with the exception of Debt Securities issued by the U.S. Government denominated in U.S. dollars.

3.4 ~~3.4~~ — Valued Securities

3.4.1 ~~3.4.1~~ — General Considerations

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CDCC accepts Valued Securities trading on the Toronto Stock Exchange or the TSX Venture Exchange, and, for the purposes of Proprietary Swap Transactions will accept Valued Securities trading on a U.S. regulated exchange.

Irrespective of the fact that a Valued Security fulfils all eligibility criteria, CDCC will not accept as collateral from or on behalf of a Clearing Member any Valued Security issued¹⁰ or guaranteed by the Clearing Member itself or its Affiliates.

No value will be recognized for a Valued Security whose closing price is below \$10 per share, (Canadian dollars for Valued Securities trading on the Toronto Stock Exchange or U.S. dollars for Valued Securities trading on a U.S. regulated exchange).

~~3.4.2~~ **Settlement Procedures**

~~3.4.2~~ **Currency of Denomination**

Valued Securities must be ~~transferable in book-entry form using CDSX of CDS Clearing and Depository Services Inc.~~

~~3.4.3~~ **Currency of Denomination**

priced in Canadian dollars, except for Valued Securities delivered in respect of Proprietary Swap Transactions, which Valued Securities must be denominated/priced in CanadianU.S. dollars.

~~3.5~~ **Risk Control Measures**

~~3.4.3~~ ~~3.5.1~~ **Proprietary Swap Transactions - Valued Securities Eligibility Criteria**

For Proprietary Swap Transactions, CDCC only accepts Valued Securities trading on a U.S. regulated exchange and included in one or more of the Eligible Indexes:

- Valued Securities that are included in the S&P 500 Index and that have sufficient historical value, as described in Section 5.6.5 below, are acceptable as “Collateral-in-Margin” or “CIM”.
- Valued Securities that are included in the Russell 1000 Index, but that do not meet the CIM criteria are referred to as “Standard Valued Securities”.

~~3.5~~ **Risk Control Measures**

~~3.4.2~~~~3.5.1~~ **General Considerations**

The CDCC collateral framework takes a conservative approach to manage the forms of eligible collateral accepted. The framework includes, but is not limited to, risk limits and calculation of Haircuts that apply to the different forms of eligible collateral.

~~3.4.3~~~~3.5.2~~ ~~3.5.2~~ **Risk Limits**

¹⁰ This includes a Canadian depositary receipt for which the underlying share is a security issued by the Clearing Member or its Affiliates.

~~3.4.3.13.5.2.1~~ **3.5.2.1 Limits at the Clearing Member Level**

- Except for the purposes of Variation Margin ~~account~~, for each acceptable Government Debt Security, excluding Treasury bills, a concentration limit equal to \$250 million or 10% of the total issue outstanding, whichever is less, is applied to each Clearing Member.
- Valued Securities issued¹¹ or guaranteed by the Clearing Member or its Affiliates are not eligible.
- Valued Securities issued by the TMX Group are not eligible.

~~3.4.3.23.5.2.2~~ **3.5.2.2 Limit on-in respect of the Clearing Fund ~~Account~~**

For each Clearing Member, for all of its accounts combined, 100% of the Clearing Fund ~~Requirements~~Requirement in respect of the Core Tranche of the Clearing Fund must be covered by CAD Cash.

3.5.2.3 For each Swap Clearing Member, for all of its accounts combined, 100% of Clearing Fund Requirement in respect of the Swap Tranche of the Clearing Fund must be covered by USD Cash.

~~3.4.3.33.5.2.3~~ **Limit on the Margin Requirements¹²**

For Futures, Options, Fixed Income and OTCI transactions, excluding Proprietary Swap Transactions:

For each Clearing Member, for all of its accounts combined, at least 25% of the Core Margin ~~requirements~~requirement must be covered by CAD Cash, acceptable Treasury bills and bonds issued or guaranteed by the Government of Canada or any combination thereof valued after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 40% of the Core Margin ~~requirements~~requirement may be covered by Debt Securities issued by the United States of America Federal Government after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 50% of the Core Margin ~~requirements~~requirement may be covered by provincial issued or guaranteed Debt Securities after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 20% of the Core Margin ~~requirements~~requirement may be covered by Debt Securities issued or guaranteed by the province of Alberta after the application of Haircuts.

¹¹ This includes a Canadian depositary receipt for which the underlying share is a security issued by the Clearing Member or its Affiliates.

¹² This excludes the Net Variation Margin Requirement.

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For each Clearing Member, for all of its accounts combined, no more than 20% of the Margin requirements may be covered by Debt Securities issued or guaranteed by the province of British Columbia after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 20% of the Margin requirements may be covered by Debt Securities issued or guaranteed by the province of Manitoba after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 30% of the Margin requirements may be covered by Debt Securities issued or guaranteed by the province of Ontario after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 30% of the Margin requirements may be covered by Debt Securities issued or guaranteed by the province of Quebec after the application of Haircuts.

For each Clearing Member, for all of its accounts combined no more than 15% of the Margin requirements may be covered by Valued Securities after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 5% of the Margin requirements may be covered by any one Valued Security after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, risk limits in proportion of the Margin requirements may be covered by Non-CAD Currencies after the application of Haircuts. CDCC reviews and publishes risk limits attributable to Non-CAD Currencies from time to time, and the Clearing Members are informed of these reviews by written notice.

3.5.2.4 Limit on the Variation Margin Account

For each Clearing Member For Proprietary Swap Transactions:

For each Swap Clearing Member, for all of its accounts combined no more than 15% of the Swap Margin requirements may be covered by Standard Valued Securities after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 5% of its Swap Margin requirements may be covered by any one Standard Valued Security after the application of Haircuts.

For each Swap Clearing Member, for all of its accounts combined, no more than \$1,000M USD of the Swap Margin requirements may be covered by Treasury inflation-protected securities (TIPS) issued by the U.S. Government after the application of Haircuts.

3.5.2.4 Limit on Variation Margin

For each Clearing Member, except for products subject to cash settled Variation Margin, for all of its accounts combined, 100% of the Net Variation Margin Requirement must be covered by acceptable Treasury bills and bonds issued or guaranteed by the Government of Canada, Government of Alberta, Government of British Columbia, Government of Ontario and Government of Quebec or any combination thereof after the application of Haircuts.

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CDCC shall, on an exceptional basis, acting reasonably, accept CAD Cash or other securities as collateral to cover the Net Variation Margin Requirement.

~~3.4.3.4~~ ~~3.5.2.5~~ ~~3.5.2.5~~ Limit on the Supplemental Liquidity Fund

For each Clearing Member, for all of its accounts combined, 100% of the Core Tranche of the Supplemental Liquidity Contributions Fund must be covered by CAD Cash.

3.5.3—For each Swap Clearing Member, for all of its accounts combined, 100% of the Swap Tranche of the Supplemental Liquidity Fund must be covered by USD Cash.

~~3.4.4~~ ~~3.5.3~~ Limits at CDCC Level

For each acceptable Valued Security, a concentration limit of 5% of the free float applies at CDCC level.

~~3.5.3.6~~ ~~3.6~~ Haircuts

~~3.5.1~~ ~~3.6.1~~ Haircuts for Non-CAD Currencies

The Corporation calculates the Haircuts based on historical daily returns of the foreign exchange risks. The volatility estimator uses the exponentially weighted moving average (“EWMA”) approach as defined in Appendix 6.2, and the assumption that the Non-CAD currency can be liquidated at a reasonable price in “n” days (“n” is determined according to the applicable basket of currencies and prevailing market conditions).

In addition, the final Haircut applied for Non-CAD Currencies is calculated as the maximum daily haircut computed over the last 5 years and over the applicable basket of currencies considered by the Corporation.

Once the quantitative analysis is performed, CDCC reserves the right to increase the Haircuts based on qualitative criteria, acting reasonably.

~~3.5.2~~ ~~3.6.2~~ Haircuts for Government Securities

The Corporation calculates the Haircuts based on any of the following criteria:

Valuation of the market, credit, liquidity and foreign exchange risks based on historical daily returns;

The volatility estimator uses the exponentially weighted moving average (“EWMA”) approach as defined in Appendix 6.5, and the assumption that the bond can be liquidated at a reasonable price in “n” days. (“n” is determined according to the type of products and prevailing market conditions). In addition, a floor for the EWMA volatility estimator is calculated as the 25th percentile of a daily EWMA volatility estimator observed over the last 10 years;

Liquidity risk is valued according to the bid-ask spread of the issues using the same EWMA volatility estimator and the floor (if this spread is unavailable, the liquidation window will be expanded and will depend on market conditions);

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Bonds of the same issuer and comparable maturities.

Once the quantitative analysis is performed, CDCC reserves the right to increase the Haircuts based on qualitative criteria, such as:

Comparative analysis of CDCC's Haircuts in relation to the haircuts ~~of~~applied by the Bank of Canada;

Comparative analysis of CDCC's Haircuts in relation to the haircuts ~~of~~applied by other clearing houses;

The congruence of the different Haircuts to the credit rating spreads of the different issuers; and

Any other factor considered relevant by CDCC, acting reasonably.

~~3.5.3~~3.6.3 ~~3.6.3~~ — The Haircuts for Valued Securities

For Futures, Options, Fixed Income and OTCI transactions, excluding Proprietary Swap Transactions:

A Haircut ~~of 50%~~ is applied to all Valued Securities pledged against the total Core Margin requirement for all accounts combined.

~~3.6.4~~ — For Proprietary Swap Transactions:

A Haircut is applied to eligible Standard Valued Securities pledged against the total Swap Margin requirement for all accounts combined, including any Valued Securities constituting CIM.

CDCC will monitor the list of eligible Valued Securities and Haircuts, and if required, review the list and haircuts to ensure alignment with the criteria listed in the CDCC Risk Manual.

~~3.5.4~~3.6.4 ~~3.6.4~~ — Haircuts Policy

CDCC reviews and publishes the Haircuts from time to time, and the Clearing Members are informed of these reviews by written notice.

Section 4 : MONITORING PROGRAM

4.1 Backtesting

The Corporation monitors the daily performance of the models through the backtesting and sensitivity analysis. The backtesting is used as a tool to validate the models, but it is not limited to model validation.

In addition, a Clearing Member's portfolio is backtested on a daily basis and the results are monitored by the Corporation.

4.2 Stress Testing

The CDCC stress testing management framework takes a conservative approach to create and revise stress tests scenarios. The Corporation uses different historical and theoretical stress scenarios, each of them designed to test different relevant Risk Factors. The framework includes, but is not limited to, the assessment of the new scenarios and the monitoring of the Risk Factors and stress test scenarios and correction measures if the daily results are not satisfactory.

The stress testing management framework is revised by CDCC from time to time.

4.3 Clearing Members

Credit Risk Monitoring CDCC performs a qualitative analysis of the financial statements of each Clearing Member. CDCC has defined specific thresholds to analyze the profitability, the regulatory margin and capital obligations, the liquidity and the capital level of each Clearing Member. As a result of its analysis, the Corporation may require such additional information from its Clearing Members as may be reasonably necessary. On the basis of the above analysis, the Corporation will determine if it is necessary to take any additional actions.

~~Section 1 CONTRACT ADJUSTMENT~~

~~Section A-902 of the Rules prescribes the cases in which a contract adjustment may be made.~~

~~The Corporation is responsible for monitoring and identifying the corporate events that may result in a contract adjustment. It interprets the information and communicates it to the Adjustment Committee as soon as possible. The Adjustment Committee acts in accordance with the provisions of Rule A-9.~~

~~A meeting of the Adjustment Committee is called by the Corporation, whenever circumstances require. The Adjustment Committee is responsible for preparing the draft notices to the Clearing Members which, once approved by the Adjustment Committee members, are published to the attention of the Clearing Members and the market participants.~~

Section 5 : ACCEPTABILITY OF UNDERLYING INTERESTS

5.1 ~~6.1~~ Acceptable Underlying Interests of Securities Options

- Section B-603 of the Rules sets out the eligibility criteria for Securities Options.
- Section B-604 of the Rules sets out the ineligibility criteria for Securities Options.
- Section B-605 of the Rules sets out the eligibility criteria for ETF Securities as Underlying Interests of Options.
- Section B-606 of the Rules sets out the ineligibility criteria for ETF Securities as Underlying Interests of Options.

CDCC reviews and publishes, from time to time, the eligibility threshold and ineligibility threshold in terms of Value of Available Public Float and volume (expressed as an average daily North American Volume of the last 20 Business Days) for clearing Securities Options.

5.2 ~~6.2~~ Acceptable Underlying Interests of Share Futures

- Section C-1503 of the Rules sets out the eligibility criteria for Share Futures.
- Section C-1504 of the Rules sets out the ineligibility criteria for Share Futures.

CDCC reviews and publishes, from time to time, the eligibility threshold and ineligibility threshold in terms of Value of Available Public Float and volume (expressed as an average daily North American Volume of the last 20 Business Days) for clearing Share Futures.

5.3 ~~6.3~~ Acceptable Underlying Interests of OTCI Securities Options

- Section D-104 of the Rules sets out the acceptance criteria for OTCI Securities Options.

CDCC reviews and publishes, from time to time, on its website a list of Acceptable Underlying Interests for clearing OTCI Securities Options.

Between two publications of the list of Acceptable Underlying Interests, a Clearing Member who wishes to clear OTCI Securities Options for which an Underlying Interest is not included on the list must obtain the Corporation's prior approval. The Underlying Interest must at least meet the acceptance criteria prescribed in Section D-104 of the Rules.

5.4 ~~6.4~~ Acceptable Underlying Interests of Cash Buy or Sell Trades

For the application of Sections D-104 and D-603 of the Rules, Securities are acceptable for Cash Buy or Sell Trades clearing if they meet the following criteria:

- The issuer must be eligible, which includes the following issues:

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- Bonds and Treasury bills issued by the Government of Canada, including real return issues;
- Canada Mortgage and Housing Corporation Debt Securities;
- Bonds issued by Business Development Bank of Canada;
- Bonds issued by Export Development Canada;
- Bonds issued by Farm Credit Canada;
- Bonds issued by Canada Post; and
- Secured General Collateral Notes issued by a special purpose trust, at the request of a SGC Clearing Member
- Bonds issued by certain provincial governments and provincial Crown corporations determined as acceptable by CDCC, excluding real return bonds, zero-coupon bonds, and bonds with a maturity of less than one year.
 - The bonds must be repayable at maturity;
 - The bonds must be denominated in Canadian dollars;
 - The coupon type must be fixed, adjusted for the inflation or zero (Treasury bills are eligible);
 - The net amount outstanding¹³ must be greater than or equal to \$250 million; and
 - The bonds' prices must be issued by a source that is acceptable to the Corporation.

5.5 ~~6.5~~ Acceptable Underlying Interests of Repurchase Transactions

For the application of the provisions of Sections D-104 and D-603 of the Rules, Securities are eligible for clearing of Repurchase Transactions if they meet the following criteria:

- The Underlying Interest must be an Acceptable Underlying Interest of Cash Buy or Sell Trades;
- The Purchase Date of the Repurchase Transaction must be no earlier than the Novation Date;

¹³ The net amount outstanding is defined as the outstanding amount issued on the market minus the stripped coupon bonds and issuer repurchases.

- The Repurchase Date of the Repurchase Transaction must not be more than 365 days later than the Purchase Date of the Repurchase Transaction and must be no later than the Maturity Date of the Acceptable Security.

5.6 Acceptable Underlying Interests of Proprietary Swap Transactions

For the application of the provisions of Sections D-104 and D-803 of the Rules, Securities are eligible for clearing of Proprietary Swap Transactions if they meet the following criteria:

- The Underlying Interest must be an Acceptable Underlying of the Eligible Index or Eligible Shares of an Eligible Basket, as set out in Rule D-803 and Rule D-8 Definitions.

Section 6 : APPENDIX

6.1 ~~7.1~~ Core Base Initial Margin Calculation for Options, Futures and Unsettled Items¹⁴

For greater certainty, this ~~section~~section only applies to Options, Futures and Unsettled Items.

To calculate the Core Base Initial Margin, the risk methodology is based on the PSR and the VSR which are then converted into the Scanning Risk parameter. The Scanning Risk parameter represents the difference between the most unfavourable projected liquidation value and the initial reference price¹⁵. The most unfavourable projected liquidation value amongst the Risk Array is obtained by varying the values of the Underlying Interest and implied volatility according to several scenarios representing adverse changes in normal market conditions. The projected liquidation values are obtained using specific valuation models such as Black 76, Black-Scholes, Binomial and others.

The Scanning Risk is calculated at the Combined Commodity level and is denominated in the same currency as the contract. For contracts belonging to the same Combined Commodity, the Risk Array results are added up for all contracts under the same scenario. The highest loss represents the Scanning Risk.

The other variables influencing the value of the Core Base Initial Margin are the Intra-Commodity, the Inter-Commodity and the Short Option Minimum. The following table summarizes the variables used in the calculation.

Input variables to calculate the <u>Core</u> Base Initial Margin ¹⁶	Options	Futures	Unsettled Items
Scanning Risk	•	•	•

¹⁴ Unsettled Items resulting ~~of~~from a physical delivery of Government of Canada Bond Futures are margined under the VaR methodology.

¹⁵ The initial reference price is the market price or the theoretical price derived from market observations.

¹⁶ Under CDCC's Portfolio Margining framework, Options, Futures and Unsettled Items may be grouped in the same Combined Commodity or may be subject, if eligible, to Inter-Commodity credit. Margin relief between GCM Regime and Non-GCM Regime positions is not permitted.

Input variables to calculate the Core Base Initial Margin ¹⁶	Options	Futures	Unsettled Items
Intra-Commodity		•	
Inter-Commodity	•	•	•
Short Option Minimum	•		

6.1.1 ~~7.1.1.~~ Scanning Risk

The Scanning Risk parameter represents the difference between the most unfavourable projected liquidation value and the initial reference price. The most unfavourable projected liquidation value amongst the Risk Array is obtained by varying the values of the Underlying Interest and implied volatility according to several scenarios representing adverse changes in normal market conditions. The table at the end of this section shows all the risk scenarios. The projected liquidation values are obtained using specific valuation models such as Black 76, Black-Scholes, Binomial and others. If the largest loss is negative, the Scanning Risk is set to zero. The Scanning Risk is then compared to the Short Option Minimum. This amount is required if the Short Option Minimum is higher than the result of the Risk Arrays.

6.1.1.1 ~~7.1.1.1~~ Price Scan Range

The term PSR represents the potential variation of the contract value and it is calculated through the following formula:

$$PPPPPP = PPPPPPPPPPP \times MMMM \times CCCCCCCCCPPCCPPCC PPPSSPP$$

The methodology for the MI is detailed in Section 6.5.

6.1.1.2 ~~7.1.1.2~~ Volatility Scan Range

The term VSR represents the potential variation of the implied volatility and it is calculated through the following formula:

$$VVPPPP = VVCCVVCCCCPPVVPPCCVV PPPrCCPP00 \times \sqrt{n}$$

Where 'n' is the MPOR, and 'Volatility Shock' represents the 95% confidence level of the historical daily fluctuations for the series volatility over a one year look-back period. The daily fluctuations are scaled up with the use of MPOR. VSR values are subject to a floor value and a cap value.

Risk Scenarios	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
----------------	---	---	---	---	---	---	---	---	---	----	----	----	----	----	----	----

Underlying Price Variation*			1/3	1/3	1/3	1/3	2/3	2/3	2/3	2/3	1	1	-1	-1	2	-2
Volatility Variation*	1	-1	1	-1	1	-1	1	-1	1	-1	1	-1	1	-1	0	0
Weight Fraction Considered	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	35%	35%

*Expressed in scan range

The MI, MPOR and Volatility Shocks values are updated by the Corporation from time to time.

6.1.2 ~~7.1.2~~ Intra-Commodity

Long positions on Futures maturing in one month are automatically matched with short positions on Futures maturing in another month. The resulting Core Base Initial Margin on these two Futures belonging to the same Combined Commodity, could be lower than the real risk associated with the combination of the two contracts. In order to cover this inter-month spread risk, a charge is included in the Core Base Initial Margin.

For the Futures, the Intra-Commodity which is an additional dollar amount charge applied to each combination of a minimum of two different Futures, is determined by applying the MI methodology on the Futures combination's daily profit and loss over the reference period. The methodology for the MI is detailed in Section 6.5.

With respect to the CORRA Futures (COA & CRA), the S&P/TSX 60 Index Standard Futures (SXF) and the S&P/TSX 60 Dividend Index Futures, CDCC calculates the Intra-Commodity for combinations of spreads and/or butterfly strategies and applies a same charge for a same group of combinations with close maturities. If multiple Intra-Commodity are defined, the Corporation will prioritize the ones providing the lowest Core Base Initial Margin.

The combinations and the spread priorities for the Intra-Commodity are updated by CDCC from time to time.

6.1.3 ~~7.1.3~~ Inter-Commodity

The Corporation may consider the correlation that exists between different Combined Commodities when calculating the Core Base Initial Margin. The Corporation will grant a credit according to the historical correlation of the profit and loss of the two Combined Commodities. If multiple Inter-Commodity are defined, the Corporation will prioritize the ones with the highest correlation.

The Inter-Commodity and the spread priorities are updated by CDCC from time to time.

6.2 ~~7.2~~ Core Base Initial Margin Calculation for Fixed Income Transactions

~~For greater certainty, this section only applies to Fixed Income Transactions.~~

To calculate the Core Base Initial Margin, the VaR methodology is based on Historical Scenarios for all relevant Risk Factors. The Historical Scenarios consist of a set of scenarios for a Risk Factor over a relevant historical period that represents an hypothetical market observation movement (shocked market observation based on market history) reasonably likely to occur, from the current situation to a specific point in time in the future.

For Fixed Income Transactions, the Risk Factors are the Zero Curves. On any given Business Day, the shocks derived from the Historical Scenarios are applied to the initial reference market inputs values. The difference between the initial reference price and the shocked historical price represents an Historical P&L Scenario. The initial reference price and historical shocked price are derived respectively from the initial reference Zero Curves and the shocked Zeros Curve using a full revaluation method.

The Historical P&L Scenarios are calculated at the VaR Risk Group level and are denominated in the same currency as the Fixed Income Transactions. For Fixed Income Transactions belonging to the same VaR Risk Group, the Historical P&L Scenarios results are added up for Fixed Income Transactions.

Lastly, the Historical P&L Scenarios are ranked to derive the Historical P&L Distribution that is used to calculate the average loss of the portfolio using the Expected Shortfall method. The Core Base Initial Margin is then obtained by combining the historical risk component (based on the Expected Shortfall methodology) with a Stress Risk component (based on the Stressed Value at Risk methodology) using a weighted approach.

The main steps to calculate the Core Base Initial Margin are described in the section below.

6.2.1 ~~7.2.1~~ Historical Filtered Scenarios

The Historical Filtered Scenarios are generated using the initial reference Risk Factors value and historical observations of different tenors on the Zero Curves.

The shocked Risk Factors are calculated using the following formula:

$$W'_{tt, \tau\tau} = VV_{TT, \tau\tau} + PP_{tt, \tau\tau} PP_{tt, \tau\tau}$$

Where PP is the scaling factor for the volatility scaling adjustment and PP is the daily market variation over the Margin Period of Risk 'n'. CDCC uses a look-back period of 5 years.

$$PP_{tt, \tau\tau} = VV_{tt, \tau\tau} - VV_{tt - m, \tau\tau}$$

The scaling factor formula at time t and for a given tenors is calculated using the following formula:

$$PP_{tt, \tau\tau} = \frac{\sigma_{TT, \tau\tau} + \sigma_{tt, \tau\tau}}{2}, \text{ } \frac{\sigma_{tt, \tau\tau}}{\sigma_{tt, \tau\tau}}$$

Where σ is the EWMA volatility forecast and min SF is the minimal scaling factor.

The implemented formula for the EWMA volatility forecast is:

$$\sigma^2_{tt, \tau\tau} = (1 - \lambda\lambda) PP^2_{tt, \tau\tau} + \lambda\lambda \sigma^2_{tt-1, \tau\tau}$$

Where PP is the daily market variation over the Margin Period of Risk 'n' and $\lambda\lambda$ is the decay factor. CDCC uses $\lambda\lambda = 0.99$. The min SF is updated by CDCC from time to time.

6.2.2 ~~7.2.2~~ Historical P&L Scenario generation

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The Historical P&L Scenarios are valued by calculating the difference between the shocked prices of Fixed Income Transactions under an Historical Filtered Scenario and the initial reference prices. The Historical P&L Scenarios results are added up for all Fixed Income Transactions within a VaR Risk Group.

The initial reference prices are calculated using a full revaluation method and the initial reference Risk Factors. The shocked prices are calculated using a full revaluation method and the shocked Risk Factors.

6.2.3 ~~7.2.3~~ Expected Shortfall

For each VaR Risk Group, the Historical P&L is sorted from largest loss to largest profit to construct the Historical P&L Distribution. Using a confidence value equivalent to 99.62% and the Historical P&L Distribution, the Expected Shortfall is determined by averaging the losses exceeding the confidence value.

6.2.4 ~~7.2.4~~ Stressed Value at Risk (SVaR)

In addition, CDCC considers a Stress Risk component based on the Stressed Value at Risk (SVaR) methodology to mitigate the procyclicality of margins:

$$BBCCBBPP \text{ } MMCCPPCCPPCCVV \text{ } MMCCPPMMPPCC = (1 - ww) \times HHPPBBCCCCPPPPCCVV \text{ } PPPBB00 + ww \times PPCCPPPPBBB \text{ } PPPBB00$$

Where the Stress Risk component is equal to a confidence level equivalent to a minimum of 99% of the ranked distribution of the absolute stressed P&L over a fixed period of a minimum of 260 days with a high market volatility, a variable number of days as MPOR and a weighting factor of 25% (~~W~~ 'w'). The stressed P&L are also calculated using a full revaluation method and the Risk Factors.

The SVaR methodology is applicable to all VaR Risk Groups.

6.3 ~~7.3~~ Recalibration of the Effective Ratio

The Core Base Initial Margin requirement of each Limited Clearing Member is affected by a multiplication factor (the "Effective Ratio").

Objective: The Recalibration Methodology (as defined below) ensures that the Effective Ratio remains continuously consistent with the ratio of the total Clearing Fund Requirements in respect of the Core Tranche of the Clearing Fund on the total Core Base Initial Margin for all Clearing Members (excluding Limited Clearing Members) and addresses the permanence and persistence of a change.

Trigger: The Corporation shall review the Effective Ratio annually, and may review the Effective Ratio at any time following a change to the CDCC risk model which is required in order to comply on an ongoing basis with the regulatory requirements applicable to CDCC ("Risk Model Change"). Following such review, CDCC may recalibrate the Effective Ratio in accordance with the methodology set forth below (the "Recalibration Methodology"). For further clarity, a Risk Model Change captures both changes required by CDCC to comply on an ongoing basis with its current regulatory requirements and changes required to comply on an ongoing basis with applicable regulatory requirements.

6.3.1 ~~7.3.1~~ Recalibration Methodology

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The Effective Ratio ("ER") shall be re-calibrated if the value of the ER, at the time of the calculation, is not within the range determined by the UB and LB (as defined below):

- Where the current ER is within one plus the Boundaries (defined below) applicable to a given period, no recalibration will be made to the Effective Ratio.
 - The Boundaries refer to the upper limit (UB) and lower limit (LB) which are respectively the highest and lowest Daily Ratios over a specific period.
 - The Daily Ratio is determined, for any Business Day, by dividing the total amount of Clearing Fund Requirements in respect of the Core Tranche of the Clearing Fund on that Business Day by the aggregate amount of the Core Base Initial Margin requirements of all Clearing Members (other than Limited Clearing Members) on the same Business Day.
- Where the current ER is outside one plus the Boundaries applicable to a given period, this will constitute a recalibration event (a "Recalibration Event"), and the ER shall be recalibrated in the following manner:
 - The Boundaries of Effective Ratio shall be rounded up or down to the nearest +/- 0.1 increment.
 - If $ER > 1 + UB$, the new Effective Ratio shall be equal to the UB.
 - If $ER < 1 + LB$, the new Effective Ratio shall be equal to the LB.
 - If $ER \leq 1 + UB$ and $ER \geq 1 + LB$, there is no Recalibration Event.
- Annually, the Corporation shall determine the upper limit (UB) and lower limit (LB) parameters in accordance with the following:
 - At the time of the calculation, the UB and LB are determined by taking respectively the highest and lowest Daily Ratios over the prior calendar year, in accordance with the following formulas:

$$LLCCwvPPPP LLPLLPQC LB_t = \frac{TTCCCCCVV V CCSS_t}{TTCCCCCVV BBCCBBPP MMMM_t} \quad t \in \mathbb{N}$$

$$UUUUUUPPPP LLPLLPQC UB_t = \frac{TTCCCCCVV V CCSS_t}{TTCCCCCVV BBCCBBPP MMMM_t} \quad t \in \mathbb{N}$$

Where:

- $TTCCCCCVV CCSS_t$: total amount of Clearing Fund Requirements in respect of the Core Tranche of the Clearing Fund on the Business Day t .
- $TTCCCCCVV BBCCBBPP MMMM_t$: the aggregate amount of the Core Base Initial Margin requirements of all Clearing Members (other than Limited Clearing Members) on the Business Day.

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- Min: lowest value from the set of Daily Ratios calculated for each Business Day t in the prior calendar year.
- Max: highest value from the set of Daily Ratios calculated for each Business Day t in the prior calendar year.
- Following a Risk Model Change, the Corporation shall determine the upper limit (UB) and lower limit (LB) parameters in accordance with the following:
 - At the time of the calculation, the UB and LB are determined by taking respectively the highest and lowest Daily Ratios, by calculating the Daily Ratio over the prior 12 month-period with the use of simulated impacts to Core Base Initial Margin and the Core Tranche of the Clearing Fund as they would have been observed had the Risk Model Change already been in place:

$$LLC_{wv}PPPP \cdot LLPLLPQC \cdot LB_t = \frac{TTCCCCCV \cdot CCSS_t}{TTCCCCCV \cdot BBCCBBPP \cdot MMM_t} \cdot t \cdot \square$$

$$UUUUUUPPPP \cdot LLPLLPQC \cdot UB_t = \frac{TTCCCCCV \cdot CCSS_t}{TTCCCCCV \cdot BBCCBBPP \cdot MMM_t} \cdot t \cdot \square$$

Where:

- $TTCCCCCV \cdot CCSS_t$: total amount of Clearing Fund Requirements in respect of the Core Tranche of the Clearing Fund on the Business Day t .
- $TTCCCCCV \cdot BBCCBBPP \cdot MMM_t$: the aggregate amount of the Core Base Initial Margin requirements of all Clearing Members (other than Limited Clearing Members) on the Business Day t .
- Min: lowest value from the set of Daily Ratios calculated for each Business Day t in the prior 12-month period.
- Max: highest value from the set of Daily Ratios calculated for each Business Day t in the prior 12-month period.
- For greater certainty, for the purposes of the calculating a Daily Ratio, the term “Core Base Initial Margin” excludes any Additional Margins.

6.3.2 ~~7.3.2~~ Recalibration Governance

- On a quarterly basis, CDCC will report to the Risk Management Advisory Committee (RMAC) for information purposes the Boundaries calculated over the preceding quarter.
- On an annual basis, CDCC will report to RMAC the final Boundaries applicable over the preceding calendar year.

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- Following a Risk Model Change CDCC will promptly report to RMAC on the impact of the Risk Model Change on the Boundaries, including whether it leads to a Recalibration Event, and review the Risk Model Change in accordance with the RMAC standard governance process.
- Annually, or subsequent to any Risk Model Change, each Limited Clearing Member will be notified in writing of the new ER, where applicable.

6.3.3 ~~7.3.3~~ Entry in force

- Annually, or as soon as practicable upon the occurrence of a Recalibration Event subsequent to a Risk Model Change, the Corporation shall notify in writing each Limited Clearing Member of the new ER applicable to it.
- Subject to Section 7.3.4, new ERs shall become effective one calendar quarter after the date of the notification to each Limited Clearing Member of the new ER, and shall remain in force until a revised ER notified to the Limited Clearing Member either as a result of the ER annual review or subsequent to a Risk Model Change enters into force, in accordance with this section.

6.3.4 ~~7.3.4~~ Recalibration Additional Information

- If the Corporation notifies an Limited Clearing Member of the new ER applicable to it, the Corporation shall provide the Limited Clearing Member with the data supporting the determination that a Recalibration Event has occurred.
- Within 10 Business Days of receiving notice of the new ER applicable to it, an Limited Clearing Member may request additional information regarding the Recalibration.
- Upon receiving such request and in any event, within 5 Business Days following such request, the Corporation will provide additional information respecting the Recalibration Event.
- A Limited Clearing Member may dispute a Recalibration Event by notifying the Corporation that it requires it to be discussed at the next following quarterly RMAC meeting.
- If a Limited Clearing Member has notified the Corporation and RMAC that it disputes a Recalibration Event and the Recalibration Event has been discussed at the subsequent quarterly RMAC meeting, unless a revision of the ER has been agreed, the new ER shall become effective one calendar quarter after the date of the initial notification by the Corporation of the revised ER to the Limited Clearing Member.

6.4 ~~7.4~~ OTCI Securities Options

In order to evaluate the OTCI Option Price, the implied volatility of the contract must be derived. Two different methodologies are used depending on whether the Option is listed on an Exchange or not.

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If the Option is exchange-traded, the Corporation uses the Option's data (the entire Option series for one expiry month) and builds a volatility curve using a cubic spline function. After building the volatility curve, the Corporation determines the implied volatility that corresponds exactly to the strike price of the Option to be assessed. If the expiry date of the Option does not correspond to the ones of the listed series, the Corporation builds two volatility curves, one using the Option series with an expiry date that is right after the one of the assessed Option and one using the series of Options with an expiry date that is right before the one of the assessed Option.

Then, the implied volatility that corresponds to the strike price of the Option to be assessed is determined on each curve. Finally, a linear interpolation is done to determine the implied volatility that corresponds to the strike and to the expiry date of the Option to be assessed. However, if the expiry date of the Option to be assessed is before (after) the first (last) expiry date of the listed Options series, the Corporation uses the volatilities of the volatility curve of the first (last) expiry date of the listed Option series.

If the Option is not listed and no data is available for it, the Corporation uses the yearly historical volatility of the Option's Underlying Interest price as a proxy for the implied volatility.

6.5 ~~7.5~~ Margin Interval

The MI is calculated using the following formula for the historical risk:

$$HHPPBBCCCCPPPPPCCVV PPPPBB00 = \sigma_{tt} \times \alpha \times \sqrt{n}$$

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 CORRA Futures, the S&P/MX International Cannabis Index Futures, the S&P/TSX 60 Dividend Index Futures, and the Bitcoin Price 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 CORRA Futures, the S&P/MX International Cannabis Index Futures, the S&P/TSX 60 Dividend Index Futures, and the Bitcoin Price Index Futures). ' σ_{tt} ' 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:

$$\sigma_{tt} = \sqrt{\frac{(1-\lambda)\sum_{ii=1}^{260} \lambda^{ii-1} (PP_{tt-ii} - \overline{PP})^2}{(1-\lambda^{260})}}$$

Where \overline{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), \overline{R} is the mean return over the specified period and λ is the decay factor. CDCC uses $\lambda = 0.99$ (applicable to all products except for the S&P/TSX 60 Dividend Index Futures) or $\lambda = 0.98$ (applicable to the S&P/TSX 60 Dividend Index Futures).

In addition, CDCC considers the following measures to mitigate the procyclicality of margins:

- A Stress Risk component, calculated using a ~~Stress~~Stressed Value at Risk (SVaR):

$$MM^* = (1 - ww) \times HHPPBBCCCCPPPPPCCVV PPPPBB00 + ww \times PPCCPPPPBBBB PPPPBB00$$

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Where the Stress Risk component is equal to a confidence level equivalent to a minimum of 99% of the ranked distribution of the absolute price return of the Underlying Interest or an equivalent Risk Factor over a fixed period of a minimum of 260 days with a high market volatility, a variable number of days as MPOR and a weighting factor of 25% ("vw").

The SVaR is applicable to all Index and Share Futures and Options¹⁷, Bitcoin Price Index Futures¹⁸, as well as all Government of Canada Bond Futures and Option on Government of Canada Bond Futures. For all other products (all short term Interest Rate Futures), the weighting factor is set to zero and only the historical risk component is applicable¹⁹.

- A volatility floor, calculated using the EWMA approach:

$$NM^{**} = \frac{1}{N} \sum_{i=1}^N (NM_i^* + \sqrt{V_i} \cdot \sqrt{1 - \alpha} \cdot \sqrt{f_i})$$

Where the volatility floor is calculated as an average of the daily volatility estimator observed over the last 10 years.

- The volatility floor is applicable to all Options, Futures and Unsettled Items.

CDCC also considers a cap for products whose decay factor used by CDCC is below 0.99. The level of such cap is calculated using the distribution of historical daily price returns over a minimum of 10 years.

6.6 Swap Base Initial Margin Calculation

To calculate the Swap Base Initial Margin, the Historical VaR methodology is based on Historical Scenarios for all relevant Risk Factors. The Historical Scenarios consist of a set of scenarios for a Risk Factor over a relevant historical period that represents an hypothetical market observation movement (shocked market observation based on market history) reasonably likely to occur, from the current situation to a specific point in time in the future.

For Proprietary Swap Transactions the relevant Risk Factors are listed below and are specific to the Equity Leg and the Floating Leg. Proprietary Swap Transactions with the same terms and conditions are economically equivalent and may be offset with each other to the extent such offsetting is permitted by the methodology. However, no margin offset is granted between the Equity Leg and the Floating Leg. Furthermore, the primary Risk Factors are different whether the Equity Leg pertains to an Eligible Index or an Eligible Basket. No margin offset is granted between Proprietary Swap Transactions over an Eligible Index and an Eligible Basket.

On any given Swap Business Day, the shocks derived from the Historical Scenarios are applied to the initial reference market values. The difference between the initial reference price and the shocked historical price represents an Historical P&L Scenario. The initial settlement price and historical shocked settlement price are derived respectively from the initial reference Risk Factors and shocked reference Risk Factors using a full revaluation method.

¹⁷ CDCC sets the weighting factor to zero and uses a 25% buffer on the volatility floor as an alternative method in specific cases where a Stress Risk component is not available

¹⁸ Conservative calibration in order to fully capture extreme events and the high intraday risk

¹⁹ Also true for the calculation of the Intra-Commodity.

The Historical P&L Scenarios are calculated at the VaR Risk Group level and are denominated in the same currency as the Proprietary Swap Transactions. For Proprietary Swap Transactions belonging to the same VaR Risk Group, the Historical P&L Scenarios results are added up for Proprietary Swap Transactions.

Lastly, the Historical P&L Scenarios are ranked to derive the Historical P&L Distribution that is used to calculate the percentile (VaR) using the Historical VaR methodology. The Swap Base Initial Margin is then obtained by combining the historical risk component (based on the Historical VaR methodology) with a Stress Risk component (based on the Stressed Value at Risk methodology) using a weighted approach. In addition, an Eligible Basket may be subject to the Flat Rate methodology.

Equity Leg

The Swap Base Initial Margin methodology for an Eligible Index or Eligible Basket considers the following Risk Factors:

1. Eligible Index Price / Eligible Share Spot Price,
2. Exchange Rate, and
3. OIS Curve

Floating Leg

The Floating Leg Swap Base Initial Margin computation considers the following Risk Factors:

1. Eligible Index Price / Eligible Share Spot Price,
2. Floating Rate,
3. Exchange Rate, and
4. OIS Curve

The main steps to calculate the Swap Base Initial Margin are described in the section below.

6.6.1 Historical Filtered Scenarios

The Historical Filtered Scenarios are generated using the initial reference market values and historical Risk Factor observations.

For each of the Risk Factors, historical returns (i.e. absolute and relative) are calculated over the lookback period.

<u>Risk Factor</u>	<u>Shock</u>	<u>Formula</u>
<u>Floating Rate, OIS Rate</u>	<u>Absolute</u>	$\Delta\Delta XX_{tt} = XX_{tt} - XX_{tt-1}$
<u>Price, Exchange Rate</u>	<u>Relative</u>	$\Delta\Delta XX_{tt} = (XX_{tt} / XX_{tt-1}) - 1$

The historical variance estimator is calculated for each Risk Factor:

$$\sigma_{tt}^2 = (1 - \lambda\lambda)\Delta\Delta XX_{tt}^2 + \lambda\lambda\sigma_{tt-1}^2$$

Where $\Delta\Delta_{XX}$ is the shocked Risk Factor over the Margin Period of Risk 'n' and $\lambda\lambda$ is the decay factor. CDCC uses $\lambda\lambda = 0.99$.

The scaling factor (SF) is calculated and bracketed between a minimum and maximum bounds:

$$PPSS_{tt,TT} = \frac{\sigma\sigma_{TT}}{\sigma\sigma_{tt}}$$

Where:

- if $SF_{t,T*} \leq \min.SF \rightarrow SF_{t,T*} = \min.SF$
- else if $SF_{t,T*} \geq \max.SF \rightarrow SF_{t,T*} = \max.SF$
- else $SF_{t,T*} = SF_{t,T}$

The min and max SF are updated by CDCC from time to time.

6.6.2 Historical P&L Scenario Generation and Historical Value-at-Risk (VaR)

The Historical P&L Scenarios are valued by calculating the difference between the current price and the shocked price under the Historical Filtered Scenarios. The Historical P&L Scenarios results are aggregated within a VaR Risk Group. Finally, the Historical VaR is calculated from a percentile (99%) over the sum of the Historical P&L.

6.6.3 Stressed Value at Risk (SVaR)

In addition, CDCC considers a Stress Risk component based on the Stressed Value at Risk (SVaR) methodology to mitigate the procyclicality of margins. The stressed P&L are also calculated using a full revaluation method with the relevant Risk Factors during the stress period. The SVaR methodology is applicable to all VaR Risk Groups.

The final Swap Base Initial Margin requirement is then the calculated as the weighted sum of the Historical and Stressed VaR components:

$$BBCCBBP.P.MMCCPPCCPPCCV.V.MMCCPPMMPPC.C = (1 - ww) \times HHPPBBCCCCPPPPPPCCV.V.PPPBBB_0.0 + ww \times PPCCPPPPBBB.B.PPPBBB_0.0$$

Where the Stress Risk component is equal to a confidence level equivalent to a minimum of 99% of the ranked distribution of the absolute stressed P&L over a fixed period of a minimum of 260 days with a high market volatility, a variable number of days as MPOR and a weighting factor of 25% ('w'). The stressed P&L are also calculated using a full revaluation method and the Risk Factors.

The SVaR methodology is applicable to all VaR Risk Groups.

6.6.4 Flat Rate Margin methodology

A Basket Share with insufficient price history will be subject to a Flat Rate methodology.

6.6.5 Collateral-in-Margin (CIM) for Proprietary Swap Transactions

Swap Clearing Members are entitled to deposit certain Valued Securities as Collateral-in-Margin ("CIM"). These Valued Securities, combined with Basket Shares under the Historical VaR methodology, may allow for margin offset on the Equity Leg of a Proprietary Swap Transaction.

The Swap Base Initial Margin calculation for CIM positions takes into account the variation of the initial reference market values using the same Risk Factors and Historical P&L Scenarios as other Equity Basket constituents.

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Glossary

Unless otherwise defined in this Risk Manual, capitalized terms shall have the meanings given to them in the Rules.

Adjusted Core Base Initial Margin: With respect to Limited Clearing Members, the Core Base Initial Margin is multiplied by the Effective Ratio. The Effective Ratio is recalibrated on a regular basis as provided in this Risk Manual.

Additional Margin(s): Additional Margins are added to the Core Base Initial Margin (or Adjusted Core Base Initial Margin, where applicable) and Swap Base Initial Margin to form part of the Core Initial Margin or Swap Initial Margin, as applicable, in accordance with the methodology set out in this Risk Manual. The Additional Margins include the following: (1) Additional Margin for Market Liquidity Risk, (2) Additional Margin for Specific Wrong-Way Risk, (3) Additional Margin for Mismatched Settlement Risk, (4) Additional Margin for Intra-Day Variation Margin Risk, (5) Additional Margin for Unpaid Option Premium Exposure Risk, (6) Additional Margin for Banking Holiday Risk, (7) Additional Margin for Variation Margin Delivery Risk, (8) Additional Margin for Capital Risk, (9) Additional Margin for Uncovered Risk of Limited Clearing Members, (10) Additional Margin for Intra-Day GCM Risk, (11) Additional Margin for Undeclared GCM Positions Risk, (12) Additional Margin for Dividend Payment Risk, (13) Additional Margin for Stress Test Risk, and (14) any other Additional Margins as set out in the Rules (other than required pursuant to Rule D-607). When used in the singular form, Additional Margin shall refer to one of the Additional Margins described above, whenever the context so requires.

Additional Margin for Banking Holiday Risk: This Additional Margin requirement covers the risk of uncovered exposures arising from new trades during a Banking Holiday and the additional market risk that the Corporation could face during a Banking Holiday.

Additional Margin for Capital Risk: This Additional Margin requirement covers the credit risk that arises if the exposure of a Clearing Member to the Corporation is greater than the Clearing Member's capital level.

Additional Margin for Dividend Payment Risk: This Additional Margin requirement covers the payment risk that may occur when a Cash Distribution is declared in the manner prescribed in Section D-807 (Dividends) of the Rules.

Additional Margin for Intra-Day GCM Risk: This Additional Margin requirement covers the risk associated with uncovered exposures arising from new trades and the incremental market risk that the Corporation could face between two consecutive Business Day updates of the GCM Declaration File.

Additional Margin for Intra-Day Variation Margin Risk: This Additional Margin requirement covers the intra-day risk arising in circumstances in which market volatility or surges in trading volumes produce unusually large Variation Margin exposures.

Additional Margin for Market Liquidity Risk: This Additional Margin requirement covers the liquidity risk arising when the Corporation has to close-out positions at a price different than the market price or the last calculated theoretical price. This liquidity risk could be divided into two components: the first one is the inherent market liquidity risk which is mainly associated with the bid-ask spread, and the second one is the additional liquidity risk due to concentrated positions that cannot be liquidated within the bid-ask spread.

Additional Margin for Mismatched Settlement Risk: This Additional Margin requirement covers the risk arising from a lag between the settlement of Fixed Income Transactions which otherwise results in a margin offset.

Additional Margin for Stress Test Risk: This Additional Margin requirement covers the risk that arises when the exposure of a Swap Clearing Member is greater than a specific threshold that is based on the level of the Swap Clearing Member's stress tests.

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Additional Margin for Specific Wrong-Way Risk: This Additional Margin requirement covers the risk that arises when the exposure of a Clearing Member in its own products is adversely correlated with the creditworthiness of that Clearing Member.

Additional Margin for Uncovered Risk of Limited Clearing Members: This Additional Margin requirement covers the risk exposure that arises if the total value of the risk represented by a Limited Clearing Member to the Corporation is greater than the aggregate amount of the Limited Clearing Member's Adjusted Core Base Initial Margin and the total value of the Clearing Fund. The risk represented by the Limited Clearing Member is determined by the Corporation by calculating the estimated loss that the Corporation would face in extreme but plausible market conditions. This Additional Margin is calculated on a daily basis and is required from Limited Clearing Members only.

Additional Margin for Undeclared GCM Positions Risk: This Additional Margin requirement covers the risk that arises on a Business Day when a Clearing Member does not report in whole or in part eligible positions in the GCM Declaration File.

Additional Margin for Unpaid Option Premium Exposure Risk: This Additional Margin requirement covers the risk incurred by the Corporation in guaranteeing to each Clearing Member the settlement of the Net Daily Premium on a daily basis.

Additional Margin for Variation Margin Delivery Risk: This Additional Margin requirement covers the risk incurred by the Corporation in guaranteeing to each Clearing Member having pledged specific securities to cover its Net Variation Margin Requirement, the return of such specific securities, in the event that another Clearing Member to which the specific securities were initially delivered fails to return such specific securities and becomes a Non-Conforming Member or is suspended. In this case, the Corporation will have to buy the specific securities in the market to return to the Clearing Member that had initially pledged the specific securities.

Banking Holiday: Any day determined by the Corporation to be a banking holiday through its holiday schedule. A list of Banking Holidays is published by the Corporation on a yearly basis.

Base Initial Margin: Base Initial Margin means the Core Base Initial Margin or the Swap Base Initial Margin, as applicable.

Boundaries: With respect to the Effective Ratio, the Boundaries refer for a specific period to the upper limit (UB) and lower limit (LB) which are respectively the highest and lowest Daily Ratios during such period.

CDCC Book Positions: Positions by account recorded in CDCS. The level corresponds to the Risk Account level for all the types of accounts, with the exception of the GCM eligible positions under the Client Account Omnibus for which an additional account segregation will be provided by the GCM Declaration File.

Clearing Fund Requirement: The Clearing Fund Requirement constitutes the contributions to the Core Tranche of the Clearing Fund and the contributions to the Swap Tranche of the Clearing Fund required of each Clearing Member (excluding Limited Clearing Members).

Combined Commodity: Group of positions that are associated with the same Underlying Interest or product or both. Combined Commodity is the lowest level at which the Core Base Initial Margin for Options, Futures and Unsettled Items is computed.

Core Base Initial Margin: The Core Base Initial Margin requirement covers the potential losses that may occur in respect of the Core Business over the next liquidation period as a result of market fluctuations. The Core Base Initial Margin does not include any Additional Margins.



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Core Initial Margin: The Core Initial Margin is composed of the Core Base Initial Margin (or Adjusted Core Base Initial Margin, as the case may be) and the applicable Additional Margins.

Core Tranche: The tranche of the Clearing Fund or the Supplemental Liquidity Fund, as applicable, pertaining to activities in respect of Core Products.

Daily Ratio: The Daily Ratio is determined, for any Business Day, by dividing the total amount of Clearing Fund Requirements in respect of the Core Tranche of the Clearing Fund on that Business Day by the aggregate amount of the Core Base Initial Margin requirement of all Clearing Members (other than Limited Clearing Members) on the same Business Day.

Effective Ratio: Ratio established by the Corporation, in accordance with the governance standards set forth in this Risk Manual, which reflects the multiplier applicable to the Core Base Initial Margin for Limited Clearing Members.

Expected Shortfall: Average of all losses which are greater than or equal to the worst case. The worst case represents the $(1-\alpha)\%$ case, where α is the confidence level.

Flat Rate: Parameter established by the Corporation which reflects maximum price fluctuation that certain Eligible Shares could be expected to have during the MPOR. The Flat Rate is used to calculate the Swap Base Initial Margin.

Haircut: Percentage discounted from the market value of eligible collateral pledged for Margin Deposit. The discount reflects the price movement volatility of the collateral pledged.

Historical Filtered Scenarios: Set of scenarios resulting from a weight applied to the Historical P&L Scenarios to reflect the current volatility. The current volatility is estimated by applying a volatility scaling adjustment using the exponentially weighted moving average (EWMA).

Historical P&L Distribution: Ranking of the Historical P&L Scenarios from the largest loss to the largest profit.

Historical P&L Scenarios: Set of scenarios for a Fixed Income Transaction (or Proprietary Swap Transactions) representing the hypothetical gains and losses (“P&L”) derived from Historical Filtered Scenarios. The gains and losses are created by calculating the difference between the price of the Fixed Income Transaction (or Proprietary Swap Transactions) under an Historical Filtered Scenario and the initial reference price.

Historical Scenarios: Set of scenarios for a Risk Factor and representing an hypothetical market observation movement reasonably likely to occur, from the current situation to a specific point in time in the future.

Initial Margin: Margin which covers the potential future exposure of a Clearing Member’s portfolio and is comprised of Core Initial Margin and the Swap Initial Margin, as applicable.

Inter-Commodity: Portfolio containing offsetting positions in highly correlated instruments are subject to credits which reduce the overall Core Base Initial Margin for Options, Futures and Unsettled Items.

Intra-Commodity: Portfolio containing offsetting positions in different maturity months in the same Combined Commodity are subject to a charge since they may not be perfectly correlated.

Liquidity Shortfall: The uncovered liquidity obligations, as determined by the Corporation based on the potential payment obligations that the Corporation could face upon the default of a Clearing Member in extreme but plausible market conditions, that remain outstanding after the Corporation has allocated (i) the cash in such Clearing Member’s Core Margin Deposits or Swap Margin Deposits, as applicable, or all Clearing Members’ Core Margin Deposits or Swap

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Margin Deposits, as applicable (including, without limitation, cash in the deposits required or made as Margin), and (ii) the Corporation's available commercial bank liquidity lines.

Margin Interval (MI): Parameter established by the Corporation which reflects the maximum price fluctuation that the Underlying Interest could be expected to have during the MPOR. The MI is used to calculate the Core Base Initial Margin for Options, Futures and Unsettled Items.

Margin Period of Risk (MPOR): The period required by the Corporation to close-out non-concentrated positions in a particular contract either through liquidation, auction or by hedging or neutralizing the market risk.

Non-CAD Currencies: Currencies other than the Canadian dollar.

P&L: - has the meaning given to it in the definition of Historical P&L Scenarios.

Price Scan Range (PSR): The maximum price movement reasonably likely to occur, during a specified timeframe.

Risk Array: A Risk Array is a set of scenarios defined for a particular contract and representing the hypothetical gain/loss under a specific set of market conditions from the current situation to a specific point in time in the future.

Risk Factor: Factor influencing the value of a Derivative Instrument or OTCI.

Rules: means the Rules of the Corporation, including the Operations Manual and this Risk Manual, as any such rules and manuals may from time to time be amended, changed, supplemented or replaced in whole or in part.

Scanning Risk: The difference between the initial reference price of an Underlying Interest and its most unfavourable projected liquidation value obtained by shocking the values of the Underlying Interest according to several scenarios representing adverse changes in normal market conditions.

Short Option Minimum: Amount included in the Core Base Initial Margin to cover the risk exposure arising from deep out-of-the-money short option positions. This amount is required if this amount is higher than the result of the Risk Arrays.

Swap Base Initial Margin: The Swap Base Initial Margin requirement covers the potential losses that may occur in respect of Proprietary Swap Transactions over the next liquidation period as a result of market fluctuations. The Swap Base Initial Margin does not include any Additional Margins.

Swap Initial Margin: The Swap Initial Margin is composed of the Swap Base Initial Margin and the applicable Additional Margins.

Swap Tranche: The tranche of the Clearing Fund or the Supplemental Liquidity Fund, as applicable, pertaining to activities in respect of Proprietary Swap Transactions.

Uncovered Residual Liquidity Risk: The difference between each Clearing Member's highest daily Liquidity Shortfall in respect of Core Products or Proprietary Swap Transactions, as applicable, and the highest Uncovered Residual Credit Risk across all Clearing Members (excluding LCMs) in respect of Core Products or Proprietary Swap Transactions, as applicable, in the last 60 Business Days before the date upon which CDCC determines the Supplemental Liquidity Contributions in respect of the Core Tranche of the Supplemental Liquidity Fund or the Swap Tranche of the Supplemental Liquidity Fund, as applicable, from time to time.

Variation Margin: The Variation Margin covers the daily changes that occurred as a result of market fluctuations.

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VaR Risk Group(s): Group of Fixed Income Transactions or Proprietary Swap Transactions that are associated to similar Risk Factors. VaR Risk Group is the lowest level at which the Core Base Initial Margin for Fixed Income Transactions and the Swap Base Initial Margin for Proprietary Swap Transactions is computed.

Volatility Scan Range (VSR): The maximum implied volatility movement reasonably likely to occur, during a specified timeframe.

Volatility Shock(s): Parameter established by the Corporation which reflects the maximum daily volatility fluctuation of the Option contract. The Volatility Shock is used to calculate the Core Base Initial Margin for Options.

Zero Curve: Specific type of yield curve that associates interest rates on zero coupon bonds to different maturities (tenors). Tenors represent the Risk Factors inputs to evaluate the price of a Fixed Income Transaction or a Proprietary Swap Transaction using a full revaluation method.

Section 1 : MARGIN DEPOSITS

As set out in the Rules, every Clearing Member shall be obligated to deposit Margin with the Corporation, as determined by the Corporation. Margin Deposits must be made in the form of eligible collateral, as specified in Section 3 of this Risk Manual, in an amount sufficient, taking into account the market value and applicable Haircuts.

The Corporation requires Core Margin Deposits in respect of the Core Business and Swap Margin Deposits in respect of Proprietary Swap Transactions to cover two types of requirements, namely:

- The Core Margin requirement and the Swap Margin requirement, as applicable; and
- Clearing Fund Requirement.

1.1 Margin Requirement

The Margin requirement is determined separately in respect of each of the Core Business and Proprietary Swap Transactions and is composed of the applicable Initial Margin and the applicable Variation Margin.

1.1.1 Initial Margin

The Core Initial Margin for the Core Business is composed of the Core Base Initial Margin (or Adjusted Core Base Initial Margin, as the case may be) and the applicable Additional Margins. The Swap Initial Margin in respect of Proprietary Swap Transactions is composed of the Swap Base Initial Margin and the applicable Additional Margins. In order to cover the Initial Margin described below, Clearing Members shall deliver Deposits to CDCC in an acceptable form in accordance with Section 3 of this Risk Manual.

1.1.1.1 Core Base Initial Margin and Swap Base Initial Margin

The Core Base Initial Margin requirement and the Swap Base Initial Margin requirement cover the potential losses and market risk that may occur as a result of future adverse price changes and/or Risk Factors across the portfolio of each applicable Clearing Member under normal market conditions.

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The risk methodology for Options, Futures and Unsettled Items incorporates the historical volatility of the daily price returns of the Underlying Interests for Options, Unsettled Items and Share Futures and the daily price returns of the Futures prices for Futures (excluding Share Futures). In addition, as part of the methodology, the Corporation uses a volatility estimator, a confidence level over 99% under the normal distribution or the student's t-distribution assumption and a variable number of days as the MPOR. The Corporation also considers various measures to mitigate the procyclicality of margins:

- A Stress Risk component, calculated with a Stressed Value at Risk (SVaR) and a weighting factor of 25%.
- A volatility floor, calculated as an average of the daily volatility estimator observed over the last 10 years.

The risk methodology for Fixed Income Transactions is the Value at Risk methodology (VaR)¹. This methodology incorporates a full revaluation method and is based on Zero Curves. In addition, as part of the methodology, the Corporation uses a volatility estimator, a confidence level over 99% and a variable number of days as the MPOR. The Corporation also considers a Stress Risk component to mitigate the procyclicality of margins, calculated with a Stressed Value at Risk (SVaR) and a weighting factor of 25%.

The risk methodology for Proprietary Swap Transaction is the Value at Risk methodology (VaR). This methodology incorporates a full revaluation method and is based on Zero Curves. In addition, as part of the methodology, the Corporation uses a volatility estimator, a confidence level over 99% and a variable number of days as the MPOR. The Corporation also considers a Stress Risk component to mitigate the procyclicality of margins, calculated with a Stressed Value at Risk (SVaR) and a weighting factor of 25%. Flat Rate applies for particular Basket Share where insufficient historical prices prevail.

Please refer to Sections 6.1, 6.2 and 6.6 for additional details on the Core Base Initial Margin and Swap Base Initial Margin calculation.

With respect to the Limited Clearing Members, the Core Base Initial Margin is multiplied by the Effective Ratio to calculate the Adjusted Core Base Initial Margin. Please refer to Section 6.3 for additional details on Effective Ratio Recalibration.

1.1.1.2 Additional Margins

In addition to the Core Base Initial Margin (or Adjusted Core Base Initial Margin, as the case may be) and the Swap Base Initial Margin, the Corporation requires Margin Deposits for the following Additional Margins:

- (a) Additional Margin for Market Liquidity Risk
- (b) Additional Margin for Specific Wrong-Way Risk

¹ The same calculation method used for Fixed Income Transactions is applied to the physical delivery of Government of Canada Bond Futures.

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- (c) Additional Margin for Mismatched Settlement Risk
- (d) Additional Margin for Intra-Day Variation Margin Risk
- (e) Additional Margin for Unpaid Option Premium Exposure Risk
- (f) Additional Margin for Banking Holiday Risk
- (g) Additional Margin for Variation Margin Delivery Risk
- (h) Additional Margin for Capital Risk
- (i) Additional Margin for Uncovered Risk of Limited Clearing Members
- (j) Additional Margin for Intra-Day GCM Risk
- (k) Additional Margin for Undeclared GCM Positions Risk
- (l) Additional Margin for Stress Test Risk
- (m) Additional Margin for Dividend Payment Risk
- (n) Any other Additional Margins

The following table evidences the type of Additional Margins that will be required by CDCC for each type of products:

Additional Margins	Applicable products
Additional Margin for Market Liquidity Risk	All products
Additional Margin for Specific Wrong-Way Risk	Futures, Fixed Income Transactions, Options, Unsettled Items, Proprietary Swap Transactions
Additional Margin for Mismatched Settlement Risk	Fixed Income Transactions
Additional Margin for Intra-Day Variation Margin Risk	Futures, Fixed Income Transactions and Proprietary Swap Transactions
Additional Margin for Unpaid Option Premium Exposure Risk	Options

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Additional Margins	Applicable products
Additional Margin for Banking Holiday Risk	Futures, Options, Unsettled Items, Proprietary Swap Transactions
Additional Margin for Variation Margin Delivery Risk	Fixed Income Transactions
Additional Margin for Capital Risk	All products
Additional Margin for Uncovered Risk of Limited Clearing Members	Fixed Income Transactions
Additional Margin for Intra-Day GCM Risk	Futures
Additional Margin for Undeclared GCM Positions Risk	Futures
Additional Margin for Stress Test Risk	Proprietary Swap Transactions
Additional Margin for Dividend Payment Risk	Proprietary Swap Transactions
Any other Additional Margins	All products

Additional Margin for Intra-Day GCM Risk

The Additional Margin for Intra-Day GCM Risk is requested for uncovered intra-day exposure for eligible positions under the GCM Regime in a Client Account Omnibus.

The uncovered intra-day exposure is calculated by taking the difference between the intra-day Core Base Initial Margin requirement and the previous Business Day's Core Base Initial Margin requirement based on the CDCC Book Positions and on a net basis, and including the Variation Margin for Options. When calculating the value of Additional Margin for Intra-Day GCM Risk, the value cannot be lower than zero.

Additional Margin for Undeclared GCM Positions Risk

This Additional Margin addresses the risk exposure that arises if a Clearing Member does not fully declare GCM Regime eligible positions in Futures and Futures Options in the GCM Declaration File. This risk is determined by comparing, on a net basis, the aggregated positions in the GCM Declaration File and the related CDCC Book Positions to validate whether they match. Any undeclared positions are considered as naked positions and treated separately in a specific Risk Account ("GCM Balance Risk Account"), i.e. no netting

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occurs between the longs and shorts. The aggregated value in the GCM Balance Risk Account is requested from the Clearing Member as Additional Margin for Undeclared GCM Positions Risk. This Additional Margin is calculated on a daily basis.

Additional Margin for Market Liquidity Risk

The applicable Base Initial Margin requirement is intended to cover potential portfolio losses and market risks over a variable number of days defined as the MPOR. This Additional Margin covers the liquidity risk arising when the Corporation has to close-out positions at a price different from the market price.

The Additional Margin for Market Liquidity Risk methodology will consider an absolute surcharge or a relative surcharge for positions exceeding pre-determined thresholds.

The absolute surcharge is a fixed dollar amount applied on a specific contract or transaction or a group of contracts or transactions. The relative surcharge is applied against the specific applicable Base Initial Margin of the specific contract or transaction or a group of contracts or transactions.

The thresholds are determined based on quantitative adjustments such as the trading volume of the product, Underlying Interest, Eligible Share or Eligible Index, the volatility of the product, and the average value of bids in the primary market auctions for real return bonds. In addition to these adjustments, the Corporation may also apply qualitative adjustments.

The threshold and surcharge values are updated by CDCC from time to time.

Additional Margin for Specific Wrong-Way Risk

The risk covered by the Additional Margin for Specific Wrong-Way Risk arises when the exposure of a Clearing Member in its own products² is adversely correlated with the credit worthiness of that Clearing Member. The Additional Margin for Specific Wrong-Way risk aims to measure the risk exposure that represents the net wrong-way exposure less any eligible right-way exposure. For each situation described in the section below, the right-way exposure is limited to the value of the wrong-way risk exposure.

CDCC has identified four specific situations where the risk exists:

- (a) **Call Options:** When a Clearing Member holds a long Call Option position on the shares issued by itself or its Affiliates, the Option Price or the OTCI Option Price for OTCI Securities Options, as the case may be, is charged as Additional Margin for Specific Wrong-Way Risk. However, the value of all short Call Options for which the Underlying Interest is a security issued by itself or its Affiliates will reduce the amount charged as Additional Margin for Specific Wrong-Way Risk.

² A Clearing Member has exposure in its own products when the Clearing Member holds: 1) Positions on a security issued by the Clearing Member or its Affiliates, 2) positions for which the Underlying Interest is a security issued by the Clearing Member or its Affiliates, 3) positions on a Canadian depositary receipt for which the underlying share is a security issued by the Clearing Member or its Affiliates, or 4) positions for which the Underlying Interest is a Canadian depositary receipt for which the underlying share is a security issued by the Clearing Member or its Affiliates..

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- (b) **Put Options:** When a Clearing Member holds a short Put Option position for which the Underlying Interest is a security issued by itself or its Affiliates, the full strike value amount minus the Option Price or the OTCI Option Price for OTCI Securities Options is charged as Additional Margin for Specific Wrong-Way Risk. For a long Put Option position for which the Underlying Interest is a security issued by itself or its Affiliates, the Option Price or the OTCI Option Price for OTCI Securities Options minus the full strike value amount is charged as Additional Margin for Specific Wrong-Way Risk.
- (c) **Share Futures:** When a Clearing Member holds a long Share Futures position for which the Underlying Interest is a security issued by itself or its Affiliates, the full settlement value amount is charged as Additional Margin for Specific Wrong-Way Risk. However, any short Share Futures position for which the Underlying Interest is a security issued by itself or its Affiliates will reduce the amount charged as Additional Margin for Specific Wrong-Way Risk.
- (d) **Unsettled Items:** When a Clearing Member holds an Unsettled Item position for which the Underlying Interest is a security issued by itself or its Affiliates, the last price of the Underlying Interest is used for the calculation of the Additional Margin for Specific Wrong-Way Risk. Depending if the Unsettled Item position results from an exercise or an assignment, it could either increase or lower the Additional Margin for Specific Wrong-Way Risk.

The Additional Margin for Specific Wrong-Way Risk is netted at the product level and cannot be lower than zero.

Additional Margin for Mismatched Settlement Risk

The Additional Margin for Mismatched Settlement Risk is requested if the risk arising from a lag between the settlement of positions results in a margin offset. More specifically, CDCC faces a risk that a Clearing Member settles a position that provides a Core Base Initial Margin offset with other positions on the rest of the portfolio.

Given the fact that margin offsets are applied when Fixed Income Transaction portfolios have both long and short positions without taking into account the Settlement Dates, this Additional Margin charge will be calculated for the positions that could cause mismatched settlement exposure prior to a default.

In order to address such risk, CDCC will perform forward looking analysis to forecast material changes in the Core Base Initial Margin as a result of settlements of Fixed Income Transactions.

The Additional Margin for Mismatched Settlement Risk will be calculated by using the maximum of several scenarios representing the potential cases that may trigger a mismatched settlement risk following the settlement of positions, minus the Core Base Initial Margin.

Additional Margin for Intra-Day Variation Margin Risk

The risk covered by the Additional Margin for Intra-Day Variation Margin Risk arises when market volatility of cleared volumes produces unusually large Variation Margin exposures.

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The Additional Margin for Intra-Day Variation Margin Risk requirement corresponds to the sum of the Additional Margin for Intra-Day Variation Margin Risk in respect of Futures, the Additional Margin for Intra-Day Variation Margin Risk in respect of Fixed Income Transactions and the Additional Margin for Intra-Day Variation Margin Risk in respect of Proprietary Swap Transactions. When calculating the value of Additional Margin for Intra-Day Variation Margin Risk for Futures, Fixed Income Transactions, or Proprietary Swap Transaction the value cannot be lower than zero.

In order to address the intra-day variation margin risk, the Corporation may call for Additional Margin from each Clearing Member if it determines that the intra-day exposure for Futures and Fixed Income Transactions of the Clearing Member exceeds certain limits (thresholds expressed in percentage) in relation to such Clearing Member's respective Core Base Initial Margin. The Additional Margin for Intra-Day Variation Margin Risk specific to Futures and Fixed Income Transactions is subject to a minimum value (floor).

The same methodology is applied to Proprietary Swap Transactions. More specifically, the Corporation may call for Additional Margin from a Swap Clearing Member if it determines that the intra-day exposure for Proprietary Swap Transactions of such Swap Clearing Member exceeds certain limits (thresholds expressed in percentage) in relation to the Clearing Member's respective Swap Base Initial Margin. The Additional Margin for Intra-Day Variation Margin Risk specific to Proprietary Swap Transactions is subject to a minimum value (floor).

Additional Margin for Unpaid Option Premium Exposure Risk

The Additional Margin for Unpaid Option Premium Exposure Risk covers the risk incurred by the Corporation in guaranteeing to each Clearing Member the settlement of the Net Daily Premium on a daily basis. To cover this potential risk, the Corporation accumulates during the Business Day the value of the trades that are not yet settled. At the time of the calculation, if a Clearing Member is expected to make a cash settlement to the Corporation, the value is requested from the Clearing Member, as Additional Margin for Unpaid Option Premium Exposure Risk.

Additional Margin for Banking Holiday Risk

This Additional Margin considers the risk associated with uncovered exposures arising from new trades and the additional market risk that the Corporation could face during a Banking Holiday.

The incremental exposure is based on the historical fluctuation of the applicable Core Base Initial Margin requirement or Swap Base Initial Margin requirement over a specific period and it is designed to capture the potential uncovered Core Base Initial Margin requirement or Swap Base Initial Margin requirement arising from new trades during a Banking Holiday.

With respect to the additional market risk, one (1) more day is added to the MPOR of the Core Base Initial Margin requirement or the Swap Base Initial Margin requirement, as applicable, for the eligible tradeable products during a Banking Holiday. This resulting Core Base Initial Margin requirement or Swap Base Initial Margin requirement, as applicable, is then compared to the Core Base Initial Margin requirement or Swap Base Initial Margin requirement calculated with the MPOR. The difference between the two values corresponds to the additional market risk.

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Additional Margin for Variation Margin Delivery Risk

This Additional Margin requirement covers the risk incurred by the Corporation in guaranteeing to each Clearing Member having pledged specific securities to cover its Net Variation Margin requirement, the return of such specific securities, in the event that another Clearing Member to which the specific securities were initially delivered fails to return such specific securities and becomes a Non-Conforming Member or is suspended. In this case, the Corporation will have to buy the specific securities in the market to return such securities to the Clearing Member that had initially pledged the specific securities. To cover this potential risk, an amount representing a percentage of the total Variation Margin requirement or a specific percentage set at the securities level will be collected from the Clearing Member who initially receives the specific securities, as Additional Margin for Variation Margin Delivery Risk.

Additional Margin for Capital Risk

This Additional Margin intends to measure the credit exposure of all Clearing Members (excluding Limited Clearing Members) that arises if the exposure of a Clearing Member is superior to its capital amount.

For Core Products, the Corporation compares the Clearing Member's capital amount to the Core Base Initial Margin requirement based on the CDCC Book Positions. In the event that the Core Base Initial Margin of the Clearing Member exceeds the capital amount, Additional Margin of a minimum of 50% of the excess will be collected from the Clearing Member. The proportion value is updated by CDCC from time to time.

For Proprietary Swap Transactions, the Corporation compares the Clearing Member's capital amount to the Swap Base Initial Margin requirement. In the event that the Swap Base Initial Margin exceeds the capital amount, Additional Margin of a minimum of 50% of the excess will be collected from the Clearing Member. The proportion value is updated by CDCC from time to time.

For the purpose of this Additional Margin, the capital level is derived from regulatory reports received on a regular basis. The Corporation uses the net allowable assets, the net Tier 1³, the CET1⁴ capital or any other comparative measure to assess the capital level of each Clearing Member not subject to the latter.

Additional Margin for Uncovered Risk of Limited Clearing Members

This Additional Margin covers the risk exposure that arises if the total value of the risk represented by a Limited Clearing Member to the Corporation is greater than the aggregate amount of the Limited Clearing Member's Adjusted Core Base Initial Margin and the total value of the Clearing Fund.

The risk represented by the Limited Clearing Member is determined by the Corporation by calculating the estimated loss that the Corporation would face in extreme but plausible

³ Sum of CET1 capital and capital instruments meeting the criteria for Additional Tier 1, related surplus, additional qualifying minority interest and regulatory adjustments, the whole as per Basel III.

⁴ Sum of common shares and stock surplus, retained earnings, other comprehensive income, qualifying minority interest and regulatory adjustments.

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market conditions. This Additional Margin is calculated on a daily basis and is required from Limited Clearing Members only.

Additional Margin for Stress Test Risk

This Additional Margin covers the risk that arises if the intra-month Uncovered Residual Credit Risk for a particular Swap Clearing Member exceeds 90% of the size of the Swap Tranche of the Clearing Fund but is inferior to 100% of the size of the Swap Tranche of the Clearing Fund. In the event that the Uncovered Residual Credit Risk of a Swap Clearing Member exceeds 90% of the size of the Swap Tranche of the Clearing Fund, Additional Margin representing the difference between the Uncovered Residual Credit Risk augmented by a factor of 15% and the Swap Tranche of the Clearing Fund will be collected from the Swap Clearing Member.

This Additional Margin is calculated on a daily basis and is required from Swap Clearing Members only.

Additional Margin for Dividend Payment Risk

This Additional Margin covers the risk that arises following the declaration of a Cash Distribution in the manner prescribed in Section D-807 of the Rules.

Any Other Additional Margins

Any other Additional Margins as set out in the Rules (other than required pursuant to Rule D-607).

1.1.2 Variation Margin

The following table evidences the type of Variation Margin coverage that will be required by CDCC for each type of products. The reference to “collateralized” means that a pledge of collateral is provided in respect of Variation Margin. The reference to “cash-settled” means that the daily changes that occur as a result of market fluctuations are paid/settled on each Business Day or Swap Business Day, as applicable.

Products	Variation Margin Coverage Type
Options	Collateralized
Futures	Cash-Settled
Fixed Income Transactions	Collateralized (subject to Variation Margin process)
Unsettled Items	Collateralized
Proprietary Swap Transactions	○ No Variation Margin - Cash-Settled

1.1.2.1 Options

For Options, the Variation Margin is collateralized every Business Day and at each Intra-Day Margin Call based on the Option Price reported by the applicable Exchange, or the last OTCI Option Price for OTCI Securities Options⁵, as the case may be, and, in the event of the unavailability or inaccuracy of such price, the Corporation shall set such price in accordance with the best information available as to the correct price.

1.1.2.2 Futures

For Futures, the Variation Margin is cash settled every Business Day based on the last Settlement Price reported by the applicable Exchange, and, in the event of the unavailability or inaccuracy of such price, the Corporation shall set the last Settlement Price in accordance with the best information available as to the correct price.

1.1.2.3 Fixed Income Transactions

Capitalized terms used in this Section 1.1.2.3 and not otherwise defined in this Risk Manual or Rule A-2 have the meanings given to them in Section D-601 of the Rules.

The Variation Margin requirement⁶ in respect of each Fixed Income Transaction is calculated on a daily basis and represents the sum of the Price Valuation Requirement and the Repo Rate Requirement.

Price Valuation Requirement

The Price Valuation Requirement represents, 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.

Repo Rate Requirement

The Repo Rate Requirement represents a change in the current Floating Price Rate and means, in respect of a Repurchase Transaction, an amount which is calculated in respect of the difference between the Floating Price Rate and the Repo Rate; which amount is owed to the Corporation by a

⁵ Please refer to Section 6.4 for additional details on the theoretical price calculation of OTCI Options in respect of Securities.

⁶ The Variation Margin requirement for Fixed Income Transactions is not applied for physical delivery of Government of Canada Bond Futures. The applicable Variation Margin requirement for Fixed Income Transactions is rounded up to the nearest \$1 of nominal value.

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Fixed Income Clearing Member that is a party to such Repurchase Transaction or by the Corporation to such Fixed Income Clearing Member.

1.1.2.4 Proprietary Swap Transactions

For Proprietary Swap Transactions, the daily changes that occur as a result of market fluctuations, also referred as the Swap Net Settlement Amount, are cash-settled every Swap Business Day and is calculated in accordance with Section D-816(3) of the Rules.

1.1.2.5 Unsettled Items

The Variation Margin for Unsettled Items with respect to both Options and Futures is collateralized. With respect to Variation Margin for Unsettled Items related to Options, the Corporation calculates a Variation Margin requirement equal to the intrinsic value of the Option multiplied by the position and the contract size. With respect to Variation Margin for Unsettled Items related to Futures, the Corporation calculates a Variation Margin requirement equal to the difference between the last Settlement Price of the Futures and the price of the Underlying Interest related to the Futures, multiplied by the position and the contract size.

1.1.3 Account Structure, Netting and Risk Aggregation

1.1.3.1 Account Types and Risk Accounts

The Corporation uses five types of accounts⁷ for position management of Firm and Client: 1) Firm Account, 2) Market Maker Firm Account, 3) Client Account Individual, 4) Client Account Omnibus, 5) Market Maker Non-Firm Account.

The Corporation uses Risk Accounts for the Initial Margin requirement calculation. Risk aggregation is determined based on the position management account type and the eligibility of the positions under the GCM Regime or the Non-GCM Regime.

More specifically, for the Firm Account and the Market Maker Firm Account, risk aggregation is done directly at the account level, i.e. each account has a corresponding Risk Account ("Firm Risk Account") with the exception of the Proprietary Swap Transactions where all the Firm Accounts are commingled into one Risk Account. For the Client Account Individual and the Market Maker Non-Firm Account, positions are further segregated in two Risk Accounts ("GCM Risk Account", "Non-GCM Risk Account") depending on the eligibility regime. Hedge Open Positions, identified in these accounts by Clearing Members as eligible to reduce the market risk for an individual client, are also treated under the Non-GCM Risk Account.

For Client Account Omnibus, the treatment is different depending on the eligibility regime. For positions eligible under the GCM Regime, an additional risk segregation is done, where each account/positions disclosed from the GCM Declaration File (rather than the CDCC Book Positions) are mapped to an individual client Risk Account ("Declared GCM Risk Account"). Whereas, positions eligible under the Non-GCM Regime and based on CDCC Book Position, are carried out in a single Risk Account ("Non-GCM Risk Account").

⁷ Please refer to Section A-102 of the Rules for definitions related to these 5 account types.

1.1.3.2 Short Positions

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 in accordance with Sections A-212 and A-706 of the Rules.

1.1.3.3 Collateral-in-Margin

Swap Clearing Members are entitled to deposit certain Valued Securities that will be considered in the Swap Initial Margin requirements calculation in respect of positions in Proprietary Swap Transaction(s).

Account Types, Risk Accounts and Positions Netting

The applicable Initial Margin requirement is calculated at the Risk Account level on a net basis for all account types and asset classes, except for option positions in Client Account Omnibus and eligible under the Non-GCM Regime, for which only short Options are taken into account when computing the Core Initial Margin.

1.1.3.4 Margin Aggregation

The Margin requirement of each Clearing Member is composed of the applicable Initial Margin requirement and the applicable Variation Margin requirement.

The calculation is made at the Risk Account level and then aggregated at the corresponding margin account level pursuant to Rule A-7 Margin Requirements: Firm Margin Account, GCM Regime Margin Account and Non-GCM Regime Margin Account and Rule A-7A Swap Margin Requirements. However, operationally the Margin requirement is subject to the following aggregation, subject to the applicable type of products being cleared by the Clearing Member:

Initial Margin Requirement (including the Variation Margin for Options and Unsettled Items)

The Initial Margin requirement for all products is aggregated as follows:

- (a) The Core Base Initial Margin (or Adjusted Core Base Initial Margin, as the case may be) and the Swap Base Initial Margin are calculated at the Risk Account level. For Options, Futures and Unsettled Items, the margin results are calculated at the Combined Commodity level and the Core Base Initial Margin corresponds to the sum of all Combined Commodities. For Fixed Income Transactions and Proprietary Swap Transactions the Core Base Initial Margin and the Swap Base Initial Margin, respectively, represent the sum of all VaR Risk Groups. The applicable Base Initial Margin at the Risk Account level corresponds to the sum of the Core Base Initial Margin for Options, Futures and Unsettled Items, the Core Base Initial Margin for Fixed Income Transactions and the Swap Base Initial Margin for Proprietary Swap Transactions.
- (b) The Variation Margin for Options and Unsettled Items is calculated at the Risk Account level and then added to the Core Base Initial Margin (or Adjusted Core Base Initial Margin, as the case may be).

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- If the Variation Margin for Options and Unsettled Items is negative, this will result in a margin credit⁸ decreasing the aggregate value of the Core Base Initial Margin for Options and Unsettled Items.
 - If the Variation Margin for Options and Unsettled Items is positive, this will result in a margin debit increasing the aggregate value of the Core Base Initial Margin for Options and Unsettled Items.
- (c) The Initial Margin requirement in respect of each Clearing Member's margin accounts is calculated by aggregating for all Risk Accounts the value of (1) the Core Base Initial Margin (or Adjusted Core Base Initial Margin, as the case may be) and Swap Base Initial Margin and the Variation Margin for Options and Unsettled Items and (2) Additional Margins are required at the Firm Margin Account level, except for Additional Margin for Intra-Day GCM Risk and Additional Margin for Undeclared GCM Positions Risk required at the GCM Regime Margin Account level.

Variation Margin for Futures

The Variation Margin for Futures (the net value of gains and losses) is aggregated at the Clearing Member level (for all Risk Accounts).

Variation Margin for Fixed Income Transactions

The Variation Margin requirement for Fixed Income Transactions is aggregated at the Clearing Member level.

Proprietary Swap Transactions

The daily changes that occur as a result of market fluctuations for Proprietary Swap Transactions, also referred to as the Swap Net Settlement Amount, in accordance with Section D-816(3) of the Rules, are aggregated at the Clearing Member level.

1.2 Clearing Fund

1.2.1 Clearing Fund Requirement

Rule A-6 governs the rights and obligations of the Corporation and the Clearing Members, excluding Limited Clearing Members (LCMs), with respect to the Clearing Fund.

The Clearing Fund is a reserve fund put in place by the Corporation to absorb the deficit that may occur upon the default of a Clearing Member and its Affiliates when the suspended Clearing Member's prefunded financial resources do not cover its market exposure.

This fund is structured to mitigate the largest Uncovered Residual Credit Risk under extreme but plausible market conditions of all Clearing Members (excluding Limited Clearing Members) and of their Affiliate(s).

⁸ For a given Risk Account, the margin credit is capped to the Core Base Initial Margin for Options, Futures and Unsettled Items.

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The Clearing Fund is composed of two tranches, the Core Tranche and Swap Tranche. Each tranche is sized independently.

Core Tranche

On a monthly basis, the Core Tranche of the Clearing Fund is reviewed and updated according to the following methodology which considers two specific elements:

- The size of the Core Tranche of the Clearing Fund is based on the largest Uncovered Residual Credit Risk of all Clearing Members and of their Affiliate(s) (excluding Limited Clearing Members) with respect to Core Products over the last sixty (60) Business Days. The size is then increased by 15%.
- Each Clearing Member's Clearing Fund Requirement amount specific to the Core Tranche is equal to the weight of its respective Core Base Initial Margin requirement based on the CDCC Book Positions over the last sixty (60) Business Days multiplied by the size of the Core Tranche. A Clearing Member's contribution is subject to a minimum floor (Core Base Deposit), which varies according to the Clearing Member's type of activity in respect of Core Products.

On an intra-month basis, the Corporation monitors and controls the size of the Core Tranche and may adjust it upward between monthly re-evaluations. If the largest Uncovered Residual Credit Risk applicable to Core Products exceeds 90% of the size of the Core Tranche but is less than 100% of the size of the Core Tranche, the size of the Core Tranche is increased by 15% of the current size. If the largest Uncovered Residual Credit Risk applicable to Core Products exceeds 100% of the size of the Core Tranche, the size of the Core Tranche is updated based on the methodology described above. In both cases, the Core Tranche of the Supplemental Liquidity Fund will also be updated based on the methodology described in Section 1.3.

Notice of any additional Deposits to the Core Tranche of the Clearing Fund required as a result of the calculations set out above will be provided to Clearing Members in accordance with Section A-603(2) of the Rules and such additional Deposits shall be made in accordance with Section A-603(2) of the Rules.

Swap Tranche

On a monthly basis, the Swap Tranche of the Clearing Fund is reviewed and updated according to the following methodology which considers two specific elements:

- The size of the Swap Tranche is based on the largest Uncovered Residual Credit Risk of all Clearing Members and of their Affiliate(s) (excluding Limited Clearing Members) with respect to Proprietary Swap Transactions over the last sixty (60) Business Days. The size is then increased by 15%.
- Each Clearing Member's Clearing Fund Requirement amount specific to the Swap Tranche is equal to the weight of its respective Swap Base Initial Margin over the last sixty (60) Business Days multiplied by the size of the Swap Tranche. A Clearing Member's contribution is subject to a minimum floor (Swap Base Deposit), which varies according to the Clearing Member's activity in respect of Proprietary Swap Transactions.

On an intra-month basis, the Corporation monitors and controls the size of the Swap Tranche and may adjust it upward between monthly re-evaluations. If the largest Uncovered Residual Credit Risk applicable to Proprietary Swap Transactions exceeds 90% of the size of the Swap Tranche but is less than 100% of the size of the Swap Tranche, the size of the Swap Tranche is increased by 15% of the current size and will be

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collected from the Swap Clearing Member causing the increase in the Uncovered Residual Credit Risk. This Additional Margin is also described in Section 1.1.1.2 Additional Margin.

If the largest Uncovered Residual Credit Risk applicable to Proprietary Swap Transactions exceeds 100% of the size of the Swap Tranche, the size of the Swap Tranche is updated based on the methodology described above. In both cases, the Supplemental Liquidity Fund applicable to Proprietary Swap Transactions will also be updated based on the methodology described in Section 1.3.

Notice of any additional Deposits to the Swap Tranche of the Clearing Fund required as a result of the calculations set out above will be provided to Clearing Members in accordance with Section A-603(2) of the Rules and such additional Deposits shall be made in accordance with Section A-603(2) of the Rules.

1.3 Supplemental Liquidity Contributions

Rule A-6A governs the rights and obligations of the Corporation and the Clearing Members (excluding LCM) with respect to the Supplemental Liquidity Fund.

The Supplemental Liquidity Contributions will be required by the Corporation at its discretion, in order to, among other reasons, absorb the liquidity exposures that may occur upon the default of a Clearing Member and its Affiliates when the suspended Clearing Member's prefunded financial resources and the available Clearing Fund resources (including the Clearing Fund deposits made pursuant to Rule A-610) over the multi-day Default Management Period do not cover the Corporation's and the Clearing Member's liquidity exposure. The Supplemental Liquidity Fund is structured to mitigate the largest Uncovered Residual Liquidity Risk under extreme but plausible market conditions of all Clearing Members (excluding LCM) and of their Affiliate(s).

The Supplemental Liquidity Fund is composed of two Tranches, the Core Tranche and Swap Tranche. Each Tranche is sized independently.

Core Tranche

The Core Tranche of the Supplemental Liquidity Fund is composed of two Tiers. Tier 1 contributions are maintained during all the calendar months it is required for while Tier 2 contributions are maintained during monthly expiry periods only. These two tiers represent the maximum amount of Supplemental Liquidity Contributions that the Corporation may require, at its discretion.

On a monthly basis, Tier 1 contributions and Tier 2 contributions to the Core Tranche of the Supplemental Liquidity Fund are reviewed and updated according to the following methodology:

- The maximum size of the Tier 1 contributions is based on the largest Uncovered Residual Liquidity Risk applicable to the products included in the Core Tranche of all Clearing Members and of their Affiliate(s) (excluding LCM) over the non-expiry days of the last sixty (60) Business Days (the "Tier 1 Uncovered Residual Liquidity Risk"). The size is then increased by 15%. The Corporation may require, at its discretion, a different amount.
- The maximum size of the Tier 2 contributions is based on the positive difference between 1) the largest Uncovered Residual Liquidity Risk applicable to the products included in the Core Tranche of all Clearing Members and of their Affiliate(s) (excluding LCM) over the expiry days of the last sixty (60) Business Days (such period shall cover a minimum of three expiry periods, as defined

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below) and 2) the Tier 1 Uncovered Residual Liquidity Risk. The size is then increased by 15%. The Corporation may require, at its discretion, a different amount.

- On an intra-month basis, the Corporation monitors and controls the size of the Supplemental Liquidity Fund and may adjust it upward between monthly re-evaluations. If the largest daily Liquidity Shortfall exceeds 90% of the available size of the Core Tranche of the Clearing Fund and the Supplemental Liquidity Fund combined (including the Clearing Fund deposits made pursuant to Rule A-610 and the Supplemental Liquidity Contributions made pursuant to Rule A-6A08), the size of the Core Tranche Supplemental Liquidity Fund (both Tier 1 and Tier 2) is updated based on the methodology described above.
- The allocation of the Core Tranche of the Supplemental Liquidity Fund is based on each Clearing Member's average Uncovered Residual Liquidity Risk applicable to the products included in the Core Tranche for the past sixty (60) Business Days. For Tier 1 contributions, the allocation is based on the Clearing Member's average Uncovered Residual Liquidity Risk applicable to the products included in the Core Tranche over the non-expiry days of the last sixty (60) Business Days. For Tier 2 contributions, the allocation is based on the Clearing Member's average Uncovered Residual Liquidity Risk applicable to the products included in the Core Tranche over the expiry days of the last sixty (60) Business Days (such period shall cover a minimum of three expiry periods, as defined below).

For the purposes of the Core Tranche of this Section 1.3, an "expiry period" generally covers two "expiry days": the expiry day and the next Business Day.

Swap Tranche

The Swap Tranche of the Supplemental Liquidity Fund consists of two components: Main Component and Prefunded Component.

The Main Component of the Swap Tranche of the Supplemental Liquidity Fund is a single-tier fund. It is evaluated on a daily basis, based on the largest Uncovered Residual Liquidity Risk over the short-term (3 days) and mid-term (25 days) lookback periods, as well as the average Uncovered Residual Liquidity Risk over the long-term lookback period (60 days).

Main Component:

On a daily basis, the size of the Main Component of the Swap Tranche of the Supplemental Liquidity Fund is reviewed and updated by taking the greater of:

- (1) A weighted average Uncovered Residual Liquidity Risk (URLR):

The weighted average URLR is calculated daily, based on (i) the largest short-term over the short lookback period URLR of all Swap Clearing Members and of their Affiliate(s) and (ii) the largest mid-term URLR over the medium lookback period of all Swap Clearing Members and of their Affiliate(s).

- (2) A long-term floor:

The long-term floor of URLR is calculated daily, based on the average of the daily weighted average URLR over the long lookback period.

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The allocation of the Main Component of the Swap Tranche of the Supplemental Liquidity is based on each Swap Clearing Member's largest mid-term URLR applicable to Proprietary Swap Transactions.

Pre-funded Component:

In addition to the Main Component, CDCC includes a Prefunded Component, which is charged during the period where Proprietary Swap Transaction activity is deemed to be more elevated.

The Prefunded Component is to cover the potential increase of the daily URLR from one or more Swap Clearing Members during the period where Proprietary Swap Transaction activity is deemed to be more elevated. The primary causes for such an increase could be due to (i) an increase in market volume related to the expirations of Proprietary Swap Transactions, (ii) an increase in market volume related with trading activity changes for one or more Swap Clearing Members, or (iii) any other market factors that may impact liquidity exposures.

The Prefunded Component may be requested by CDCC at its discretion and at any time including, without limitation, in expectation of any relevant periods when Proprietary Swap Transaction activity is more elevated. In the event that a Swap Clearing Member provides CDCC with a Prefunded Component of Supplemental Liquidity Fund contribution, CDCC may return such amount to the Swap Clearing Member in full when such amount is not required any more, or in part when CDCC determines that the Swap Clearing Member's anticipated level of Proprietary Swap Transaction activity in the near future may reasonably be expected to remain at a level materially different than its historical level of activity, among other reasons.

Notwithstanding the foregoing, in the context of the period when Proprietary Swap Transaction activity is deemed to be elevated:

Step 1: CDCC will calculate and determine if a Prefunded Component of the Swap Tranche of the Supplemental Liquidity Fund must be required from a Swap Clearing Member, and require such a Prefunded Component, on the third Swap Business Day that precedes the period when Proprietary Swap Transaction activity is elevated starts. The amount calculated as part of this Step 1 remains valid until the end of the period.

Step 2: On the first Swap Business Day of the period when Proprietary Swap Transaction activity is elevated, CDCC will calculate and update the Swap Clearing Member's Supplemental Liquidity Fund requirement. If the difference between (i) the amount calculated in Step 1, and (ii) the total of any previously requested Main Component plus the amount calculated and requested in Step 1 is:

- (a) greater than zero, CDCC will, on that Swap Business Day, require the Swap Clearing Member to provide CDCC with the incremental requirements; or
- (b) lower than zero, CDCC may, after the end of the period when Proprietary Swap Transaction activity is deemed to be elevated, and subject to other provisions herein, return, partially return or keep the excess of the Prefunded Component amount.

Section 2 : SGC REPURCHASE TRANSACTIONS

This section of the Risk Manual is applicable only to the clearing of SGC Repurchase Transactions by CDCC, and to the SGC Clearing Members. An SGC Repurchase Transaction means a bilateral repurchase agreement originally entered into between an SGC Clearing Member and the Trust which is submitted to CDCC for clearing during the SGC Repurchase Transaction Submission Period, pursuant to which an SGC Clearing Member agrees to sell SGC Securities in a particular SGC Securities Basket to the Trust. A simultaneous agreement is created by the SGC Clearing Member to purchase the SGC Securities or Equivalent SGC Securities in a particular SGC Securities Basket from the Trust at the Repurchase Date, and by the SGC Maturity Settlement Time, at a Repurchase Price to be paid by the SGC Clearing Member to the Trust, and governed by CDCC Rule D-7.

2.1 Repurchase Transactions Risk Management

2.1.1 SGC Initial Securities Adjustment

The SGC Initial Securities Adjustment means the application of margins published by Bank of Canada for SLF Securities on the Bank of Canada website or for SGC Securities which are not SLF Securities, as published by the Corporation, as adjusted by the Corporation from time to time for the SGC Securities included in each SGC Securities Basket as published on the Corporation's website. CDCC will monitor the list of SLF Securities and haircuts, and if required, review the list of SGC Securities and the selection of the haircuts in order to keep the SGC Securities Basket specifications aligned with these Bank of Canada product features.

The SGC Initial Securities Adjustment acts as an additional layer of credit risk mitigation (over collateralization) in cases where CDCC would have to realize the value of the SGC Securities Basket.

2.1.2 SGC Securities Adjustment

SGC Securities Adjustment means, during the term of an SGC Repurchase Transaction, SGC Securities in an amount (i) equal to the difference between (a) the SGC Market Value of the SGC Securities that are the subject of an SGC Repurchase Transaction and (b) the Purchase Price of the SGC Repurchase Transaction plus (ii) an amount equal to the accrued Price Differential; which SGC Securities are owed to the Trust by an SGC Clearing Member that is a party to such SGC Repurchase Transaction, or by the Trust to such SGC Clearing Member.

- If CDCC proceeds with an SGC Securities Adjustment pursuant to Section D -707 of the Rules at the close of a Business Day:
 - (i) if there is a negative SGC Securities Adjustment, this amount represents the required SGC Securities Adjustment to be sold by the SGC Clearing Member to the Trust by the given timeline; and
 - (ii) if there is a positive SGC Securities Adjustment, this amount represents the required SGC Securities Adjustment to be sold by the Trust to the SGC Clearing Member by the given timeline.
- CDCC may determine, from time to time and for the purpose of Section D-707 of the Rules, the amount of a minimum threshold to be applied to SGC Securities Adjustment once calculated by CDCC (threshold expressed as a percentage). If CDCC proceeds with an intra-day SGC Securities Adjustment and such SGC Securities Adjustment is equal to or exceeds any applicable threshold, CDCC may require the SGC Clearing Member to make available SGC Securities for

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the entire amount of the SGC Securities Adjustment (disregarding the threshold) within the given timeline.

2.2 SGC Concentration Limits

All SGC Securities Baskets will be comprised of the same eligible types of SGC Securities but will be distinguished by separate SCC Initial Securities Adjustments, SGC Securities Adjustments and SGC Concentration Limits. The concentration limits are determined by CDCC for the SGC Securities in a SGC Securities Basket, as published on the Corporation's website.

2.3 Credit Rating Downgrade of a SGC Clearing Member

In the event an SGC Clearing Member fails to maintain the required rating as indicated in the Section D-703 of the Rules, the Corporation shall not accept for clearing any new SGC Repurchase Transactions from this SGC Clearing Members. SGC Repurchase Transactions that have already been novated to the Corporation prior to the change of rating may continue to settle.

In the event an SGC Clearing Members fails to maintain the required rating, CDCC will have the right, at its discretion, to apply and require from the impacted SGC Clearing Member any additional risk mitigation measures as CDCC deems appropriate including, without limitation, any additional SGC Securities Adjustment to cover for the additional risks that such a credit rating downgrade may create.

Section 3 ELIGIBLE COLLATERAL

As set out in Section 1 of the Risk Manual, every Clearing Member shall be obligated to deposit Margin with the Corporation, as determined by the Corporation. Margin Deposits must be made in the form of eligible collateral, as specified in this section, in an amount sufficient, taking into account the market value and applicable Haircuts.

3.1 Forms of Collateral

The following table sets out the form(s) of collateral eligible for each type of product:

Products	Forms of Collateral		
	Initial Margin	Clearing Fund and Supplemental Liquidity Fund	Variation Margin
Options	CAD Cash ⁹ ; Debt Securities issued by the U.S. Government; Debt Securities issued or guaranteed by the Government of Canada; Government of Alberta; Government of British Columbia; Government of Manitoba; Government of Ontario; Government of Quebec; Valued Securities	CAD Cash (for the Core Tranche)	N/A
Futures			N/A
Fixed Income Transactions			Debt Securities issued or guaranteed by the Government of Canada; Government of Alberta; Government of British Columbia; Government of Ontario; Government of Quebec
Unsettled Items			N/A
Proprietary Swap Transactions	<ul style="list-style-type: none"> USD Cash Debt Securities issued and guaranteed by the U.S. Government Valued Securities	USD Cash (for the Swap Tranche)	N/A

⁹ CDCC reviews and publishes the selection of Non-CAD Currencies from time to time, and the Clearing Members are informed of these reviews by written notice.

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The forms of eligible collateral that may be deposited with CDCC by or on behalf of a Clearing Member, as prescribed in Rule A-6 (Clearing Fund Deposits) and Rule A-7 (Margin requirements), are one or more of the following assets:

- Cash;
- Debt Securities;
- Valued Securities

CDCC may, on an exceptional and temporary basis at its sole discretion, exclude certain forms of eligible collateral or accept other forms of collateral.

3.2 Cash

Cash is accepted in Canadian dollars and in a selection of Non-CAD Currencies as specified for each product.

CDCC reviews and publishes the selection of Non-CAD Currencies from time to time, and the Clearing Members are informed of these reviews by written notice.

3.3 Debt Securities

3.3.1 General Considerations

Debt Securities which fulfill certain minimum criteria may be deemed as an eligible form of collateral. Pursuant to Rule A-708, the following subsections set out the eligibility criteria for Debt Securities.

Acceptance of a Debt Security is conditional on the availability of a price from a source that CDCC determines to be acceptable and reliable.

CDCC establishes, reviews and publishes the list of eligible Debt Securities on a regular basis.

Irrespective of the fact that a Debt Security fulfils all eligibility criteria, CDCC will not accept as collateral from or on behalf of a Clearing Member any Debt Security issued or guaranteed by the Clearing Member itself or its Affiliates.

3.3.2 Types of Debt Securities

The Debt Security must be a debt instrument having a fixed and unconditional principal amount.

The coupon rate of the debt instrument must be fixed. Zero coupon bonds are eligible.

Real return bonds can be eligible for a specific issuer as determined by CDCC on the list of eligible Debt Securities.

The Debt Security must not have an embedded option or carry a right of conversion into equity Securities, with the exception of non-financial calls (i.e. "Canada Call").

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Saving bonds, floating rate notes, stripped coupons and residual securities are excluded.

3.3.3 Types of Issuers

The Debt Securities must be issued or guaranteed by the Government of Canada, by a provincial government or by the United States ("U.S.") Government, as specified for each product.

3.3.4 Eligible Debt Securities by Issuer

3.3.4.1 Debt Securities issued by the Government of Canada:

- Treasury bills, bullet bonds and real return bonds.

3.3.4.2 Debt Securities guaranteed by the Government of Canada:

- Treasury bills, bullet bonds and Debt Securities issued by Canada Housing Trust.

3.3.4.3 Debt Securities issued by a provincial government:

- Treasury bills and bullet bonds issued by the governments of Alberta, British Columbia, Manitoba, Ontario and Quebec.

3.3.4.4 Debt Securities guaranteed by a provincial government:

- Bullet bonds issued by Financement-Quebec, Hydro-Quebec and Ontario Electricity Financial Corporation.

3.3.4.5 Debt Securities issued by the U.S. Government

- Treasury bills, notes, bonds, and Treasury inflation-protected securities (TIPS).

3.3.4.6 Currency of Denomination

Debt Securities must be denominated in Canadian dollars with the exception of Debt Securities issued by the U.S. Government denominated in U.S. dollars.

3.4 Valued Securities

3.4.1 General Considerations

CDCC accepts Valued Securities trading on the Toronto Stock Exchange or the TSX Venture Exchange and, for the purposes of Proprietary Swap Transactions will accept Valued Securities trading on a U.S. regulated exchange.

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Irrespective of the fact that a Valued Security fulfils all eligibility criteria, CDCC will not accept as collateral from or on behalf of a Clearing Member any Valued Security issued¹⁰ or guaranteed by the Clearing Member itself or its Affiliates.

No value will be recognized for a Valued Security whose closing price is below \$10 per share (Canadian dollars for Valued Securities trading on the Toronto Stock Exchange or U.S. dollars for Valued Securities trading on a U.S. regulated exchange).

3.4.2 Currency of Denomination

Valued Securities must be priced in Canadian dollars, except for Valued Securities delivered in respect of Proprietary Swap Transactions, which Valued Securities must be priced in U.S. dollars.

3.4.3 Proprietary Swap Transactions - Valued Securities Eligibility Criteria

For Proprietary Swap Transactions, CDCC only accepts Valued Securities trading on a U.S. regulated exchange and included in one or more of the Eligible Indexes:

- Valued Securities that are included in the S&P 500 Index and that have sufficient historical value, as described in Section 5.6.5 below, are acceptable as “Collateral-in-Margin” or “CIM”.
- Valued Securities that are included in the Russell 1000 Index, but that do not meet the CIM criteria are referred to as “Standard Valued Securities”.

3.5 Risk Control Measures

3.5.1 General Considerations

The CDCC collateral framework takes a conservative approach to manage the forms of eligible collateral accepted. The framework includes, but is not limited to, risk limits and calculation of Haircuts that apply to the different forms of eligible collateral.

3.5.2 Risk Limits

3.5.2.1 Limits at the Clearing Member Level

- Except for the purposes of Variation Margin, for each acceptable Government Debt Security, excluding Treasury bills, a concentration limit equal to \$250 million or 10% of the total issue outstanding, whichever is less, is applied to each Clearing Member.
- Valued Securities issued¹¹ or guaranteed by the Clearing Member or its Affiliates are not eligible.

¹⁰ This includes a Canadian depositary receipt for which the underlying share is a security issued by the Clearing Member or its Affiliates.

¹¹ This includes a Canadian depositary receipt for which the underlying share is a security issued by the Clearing Member or its Affiliates.

- Valued Securities issued by the TMX Group are not eligible.

3.5.2.2 Limit in respect of the Clearing Fund

For each Clearing Member, for all of its accounts combined, 100% of the Clearing Fund Requirement in respect of the Core Tranche of the Clearing Fund must be covered by CAD Cash.

For each Swap Clearing Member, for all of its accounts combined, 100% of Clearing Fund Requirement in respect of the Swap Tranche of the Clearing Fund must be covered by USD Cash.

3.5.2.3 Limit on the Margin Requirements¹²

For Futures, Options, Fixed Income and OTCI transactions, excluding Proprietary Swap Transactions:

For each Clearing Member, for all of its accounts combined, at least 25% of the Core Margin requirement must be covered by CAD Cash, acceptable Treasury bills and bonds issued or guaranteed by the Government of Canada or any combination thereof valued after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 40% of the Core Margin requirement may be covered by Debt Securities issued by the United States of America Federal Government after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 50% of the Core Margin requirement may be covered by provincial issued or guaranteed Debt Securities after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 20% of the Core Margin requirement may be covered by Debt Securities issued or guaranteed by the province of Alberta after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 20% of the Margin requirements may be covered by Debt Securities issued or guaranteed by the province of British Columbia after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 20% of the Margin requirements may be covered by Debt Securities issued or guaranteed by the province of Manitoba after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 30% of the Margin requirements may be covered by Debt Securities issued or guaranteed by the province of Ontario after the application of Haircuts.

¹² This excludes the Net Variation Margin Requirement.

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For each Clearing Member, for all of its accounts combined, no more than 30% of the Margin requirements may be covered by Debt Securities issued or guaranteed by the province of Quebec after the application of Haircuts.

For each Clearing Member, for all of its accounts combined no more than 15% of the Margin requirements may be covered by Valued Securities after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 5% of the Margin requirements may be covered by any one Valued Security after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, risk limits in proportion of the Margin requirements may be covered by Non-CAD Currencies after the application of Haircuts. CDCC reviews and publishes risk limits attributable to Non-CAD Currencies from time to time, and the Clearing Members are informed of these reviews by written notice.

For Proprietary Swap Transactions:

For each Swap Clearing Member, for all of its accounts combined no more than 15% of the Swap Margin requirements may be covered by Standard Valued Securities after the application of Haircuts.

For each Clearing Member, for all of its accounts combined, no more than 5% of its Swap Margin requirements may be covered by any one Standard Valued Security after the application of Haircuts.

For each Swap Clearing Member, for all of its accounts combined, no more than \$1,000M USD of the Swap Margin requirements may be covered by Treasury inflation-protected securities (TIPS) issued by the U.S. Government after the application of Haircuts.

3.5.2.4 Limit on Variation Margin

For each Clearing Member, except for products subject to cash settled Variation Margin, for all of its accounts combined, 100% of the Net Variation Margin Requirement must be covered by acceptable Treasury bills and bonds issued or guaranteed by the Government of Canada, Government of Alberta, Government of British Columbia, Government of Ontario and Government of Quebec or any combination thereof after the application of Haircuts.

CDCC shall, on an exceptional basis, acting reasonably, accept CAD Cash or other securities as collateral to cover the Net Variation Margin Requirement.

3.5.2.5 Limit on the Supplemental Liquidity Fund

For each Clearing Member, for all of its accounts combined, 100% of the Core Tranche of the Supplemental Liquidity Fund must be covered by CAD Cash.

For each Swap Clearing Member, for all of its accounts combined, 100% of the Swap Tranche of the Supplemental Liquidity Fund must be covered by USD Cash.

3.5.3 Limits at CDCC Level

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For each acceptable Valued Security, a concentration limit of 5% of the free float applies at CDCC level.

3.6 Haircuts

3.6.1 Haircuts for Non-CAD Currencies

The Corporation calculates the Haircuts based on historical daily returns of the foreign exchange risks. The volatility estimator uses the exponentially weighted moving average (“EWMA”) approach as defined in Appendix 6.2, and the assumption that the Non-CAD currency can be liquidated at a reasonable price in “n” days (“n” is determined according to the applicable basket of currencies and prevailing market conditions).

In addition, the final Haircut applied for Non-CAD Currencies is calculated as the maximum daily haircut computed over the last 5 years and over the applicable basket of currencies considered by the Corporation.

Once the quantitative analysis is performed, CDCC reserves the right to increase the Haircuts based on qualitative criteria, acting reasonably.

3.6.2 Haircuts for Government Securities

The Corporation calculates the Haircuts based on any of the following criteria:

Valuation of the market, credit, liquidity and foreign exchange risks based on historical daily returns;

The volatility estimator uses the exponentially weighted moving average (“EWMA”) approach as defined in Appendix 6.5, and the assumption that the bond can be liquidated at a reasonable price in “n” days. (“n” is determined according to the type of products and prevailing market conditions). In addition, a floor for the EWMA volatility estimator is calculated as the 25th percentile of a daily EWMA volatility estimator observed over the last 10 years;

Liquidity risk is valued according to the bid-ask spread of the issues using the same EWMA volatility estimator and the floor (if this spread is unavailable, the liquidation window will be expanded and will depend on market conditions);

Bonds of the same issuer and comparable maturities.

Once the quantitative analysis is performed, CDCC reserves the right to increase the Haircuts based on qualitative criteria, such as:

Comparative analysis of CDCC’s Haircuts in relation to the haircuts applied by the Bank of Canada;

Comparative analysis of CDCC’s Haircuts in relation to the haircuts applied by other clearing houses;

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The congruence of the different Haircuts to the credit rating spreads of the different issuers; and

Any other factor considered relevant by CDCC, acting reasonably.

3.6.3 The Haircuts for Valued Securities

For Futures, Options, Fixed Income and OTCI transactions, excluding Proprietary Swap Transactions:

A Haircut is applied to all Valued Securities pledged against the total Core Margin requirement for all accounts combined.

For Proprietary Swap Transactions:

A Haircut is applied to eligible Standard Valued Securities pledged against the total Swap Margin requirement for all accounts combined, including any Valued Securities constituting CIM.

CDCC will monitor the list of eligible Valued Securities and Haircuts, and if required, review the list and haircuts to ensure alignment with the criteria listed in the CDCC Risk Manual.

3.6.4 Haircuts Policy

CDCC reviews and publishes the Haircuts from time to time, and the Clearing Members are informed of these reviews by written notice.

Section 4 : MONITORING PROGRAM

4.1 Backtesting

The Corporation monitors the daily performance of the models through the backtesting and sensitivity analysis. The backtesting is used as a tool to validate the models, but it is not limited to model validation.

In addition, a Clearing Member's portfolio is backtested on a daily basis and the results are monitored by the Corporation.

4.2 Stress Testing

The CDCC stress testing management framework takes a conservative approach to create and revise stress tests scenarios. The Corporation uses different historical and theoretical stress scenarios, each of them designed to test different relevant Risk Factors. The framework includes, but is not limited to, the assessment of the new scenarios and the monitoring of the Risk Factors and stress test scenarios and correction measures if the daily results are not satisfactory.

The stress testing management framework is revised by CDCC from time to time.

4.3 Clearing Members

Credit Risk Monitoring CDCC performs a qualitative analysis of the financial statements of each Clearing Member. CDCC has defined specific thresholds to analyze the profitability, the regulatory margin and capital obligations, the liquidity and the capital level of each Clearing Member. As a result of its analysis, the Corporation may require such additional information from its Clearing Members as may be reasonably necessary. On the basis of the above analysis, the Corporation will determine if it is necessary to take any additional actions.

Section 5 : ACCEPTABILITY OF UNDERLYING INTERESTS

5.1 Acceptable Underlying Interests of Securities Options

- Section B-603 of the Rules sets out the eligibility criteria for Securities Options.
- Section B-604 of the Rules sets out the ineligibility criteria for Securities Options.
- Section B-605 of the Rules sets out the eligibility criteria for ETF Securities as Underlying Interests of Options.
- Section B-606 of the Rules sets out the ineligibility criteria for ETF Securities as Underlying Interests of Options.

CDCC reviews and publishes, from time to time, the eligibility threshold and ineligibility threshold in terms of Value of Available Public Float and volume (expressed as an average daily North American Volume of the last 20 Business Days) for clearing Securities Options.

5.2 Acceptable Underlying Interests of Share Futures

- Section C-1503 of the Rules sets out the eligibility criteria for Share Futures.

- Section C-1504 of the Rules sets out the ineligibility criteria for Share Futures.

CDCC reviews and publishes, from time to time, the eligibility threshold and ineligibility threshold in terms of Value of Available Public Float and volume (expressed as an average daily North American Volume of the last 20 Business Days) for clearing Share Futures.

5.3 Acceptable Underlying Interests of OTCI Securities Options

- Section D-104 of the Rules sets out the acceptance criteria for OTCI Securities Options.

CDCC reviews and publishes, from time to time, on its website a list of Acceptable Underlying Interests for clearing OTCI Securities Options.

Between two publications of the list of Acceptable Underlying Interests, a Clearing Member who wishes to clear OTCI Securities Options for which an Underlying Interest is not included on the list must obtain the Corporation's prior approval. The Underlying Interest must at least meet the acceptance criteria prescribed in Section D-104 of the Rules.

5.4 Acceptable Underlying Interests of Cash Buy or Sell Trades

For the application of Sections D-104 and D-603 of the Rules, Securities are acceptable for Cash Buy or Sell Trades clearing if they meet the following criteria:

- The issuer must be eligible, which includes the following issues:
- Bonds and Treasury bills issued by the Government of Canada, including real return issues;
- Canada Mortgage and Housing Corporation Debt Securities;
- Bonds issued by Business Development Bank of Canada;
- Bonds issued by Export Development Canada;
- Bonds issued by Farm Credit Canada;
- Bonds issued by Canada Post; and
- Secured General Collateral Notes issued by a special purpose trust, at the request of a SGC Clearing Member
- Bonds issued by certain provincial governments and provincial Crown corporations determined as acceptable by CDCC, excluding real return bonds, zero-coupon bonds, and bonds with a maturity of less than one year.
- The bonds must be repayable at maturity;

- The bonds must be denominated in Canadian dollars;
- The coupon type must be fixed, adjusted for the inflation or zero (Treasury bills are eligible);
- The net amount outstanding¹³ must be greater than or equal to \$250 million; and
- The bonds' prices must be issued by a source that is acceptable to the Corporation.

5.5 Acceptable Underlying Interests of Repurchase Transactions

For the application of the provisions of Sections D-104 and D-603 of the Rules, Securities are eligible for clearing of Repurchase Transactions if they meet the following criteria:

- The Underlying Interest must be an Acceptable Underlying Interest of Cash Buy or Sell Trades;
- The Purchase Date of the Repurchase Transaction must be no earlier than the Novation Date;
- The Repurchase Date of the Repurchase Transaction must not be more than 365 days later than the Purchase Date of the Repurchase Transaction and must be no later than the Maturity Date of the Acceptable Security.

5.6 Acceptable Underlying Interests of Proprietary Swap Transactions

For the application of the provisions of Sections D-104 and D-803 of the Rules, Securities are eligible for clearing of Proprietary Swap Transactions if they meet the following criteria:

- The Underlying Interest must be an Acceptable Underlying of the Eligible Index or Eligible Shares of an Eligible Basket, as set out in Rule D-803 and Rule D-8 Definitions.

Section 6 : APPENDIX

6.1 Core Base Initial Margin Calculation for Options, Futures and Unsettled Items¹⁴

For greater certainty, this section only applies to Options, Futures and Unsettled Items.

To calculate the Core Base Initial Margin, the risk methodology is based on the PSR and the VSR which are then converted into the Scanning Risk parameter. The Scanning Risk parameter represents the difference between the most unfavourable projected liquidation value and the initial reference price¹⁵. The most unfavourable projected liquidation value amongst the Risk Array is obtained by varying the values of the

¹³ The net amount outstanding is defined as the outstanding amount issued on the market minus the stripped coupon bonds and issuer repurchases.

¹⁴ Unsettled Items resulting from a physical delivery of Government of Canada Bond Futures are margined under the VaR methodology.

¹⁵ The initial reference price is the market price or the theoretical price derived from market observations.

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Underlying Interest and implied volatility according to several scenarios representing adverse changes in normal market conditions. The projected liquidation values are obtained using specific valuation models such as Black 76, Black-Scholes, Binomial and others.

The Scanning Risk is calculated at the Combined Commodity level and is denominated in the same currency as the contract. For contracts belonging to the same Combined Commodity, the Risk Array results are added up for all contracts under the same scenario. The highest loss represents the Scanning Risk.

The other variables influencing the value of the Core Base Initial Margin are the Intra-Commodity, the Inter-Commodity and the Short Option Minimum. The following table summarizes the variables used in the calculation.

Input variables to calculate the Core Base Initial Margin ¹⁶	Options	Futures	Unsettled Items
Scanning Risk	•	•	•
Intra-Commodity		•	
Inter-Commodity	•	•	•
Short Option Minimum	•		

6.1.1 Scanning Risk

The Scanning Risk parameter represents the difference between the most unfavourable projected liquidation value and the initial reference price. The most unfavourable projected liquidation value amongst the Risk Array is obtained by varying the values of the Underlying Interest and implied volatility according to several scenarios representing adverse changes in normal market conditions. The table at the end of this section shows all the risk scenarios. The projected liquidation values are obtained using specific valuation models such as Black 76, Black-Scholes, Binomial and others. If the largest loss is negative, the Scanning Risk is set to zero. The Scanning Risk is then compared to the Short Option Minimum. This amount is required if the Short Option Minimum is higher than the result of the Risk Arrays.

6.1.1.1 Price Scan Range

The term PSR represents the potential variation of the contract value and it is calculated through the following formula:

$$PPPPPP = PPPPPPPPP \times MMMM \times CCCCCCPCCPPCC PPPSSPP$$

¹⁶ Under CDCC's Portfolio Margining framework, Options, Futures and Unsettled Items may be grouped in the same Combined Commodity or may be subject, if eligible, to Inter-Commodity credit. Margin relief between GCM Regime and Non-GCM Regime positions is not permitted.

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The methodology for the MI is detailed in Section 6.5.

6.1.1.2 Volatility Scan Range

The term VSR represents the potential variation of the implied volatility and it is calculated through the following formula:

$$VSR = \frac{V_{95\%}}{\sqrt{n}} \times \sqrt{t}$$

Where 'n' is the MPOR, and 'Volatility Shock' represents the 95% confidence level of the historical daily fluctuations for the series volatility over a one year look-back period. The daily fluctuations are scaled up with the use of MPOR. VSR values are subject to a floor value and a cap value.

Risk Scenarios	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Underlying Price Variation*	0	0	1/3	1/3	1/3	1/3	2/3	2/3	2/3	2/3	1	1	-1	-1	2	-2
Volatility Variation*	1	-1	1	-1	1	-1	1	-1	1	-1	1	-1	1	-1	0	0
Weight Fraction Considered	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	35%	35%
*Expressed in scan range																

The MI, MPOR and Volatility Shocks values are updated by the Corporation from time to time.

6.1.2 Intra-Commodity

Long positions on Futures maturing in one month are automatically matched with short positions on Futures maturing in another month. The resulting Core Base Initial Margin on these two Futures belonging to the same Combined Commodity, could be lower than the real risk associated with the combination of the two contracts. In order to cover this inter-month spread risk, a charge is included in the Core Base Initial Margin.

For the Futures, the Intra-Commodity which is an additional dollar amount charge applied to each combination of a minimum of two different Futures, is determined by applying the MI methodology on the Futures combination's daily profit and loss over the reference period. The methodology for the MI is detailed in Section 6.5.

With respect to the CORRA Futures (COA & CRA), the S&P/TSX 60 Index Standard Futures (SXF) and the S&P/TSX 60 Dividend Index Futures, CDCC calculates the Intra-Commodity for combinations of spreads and/or butterfly strategies and applies a same charge for a same group of combinations

with close maturities. If multiple Intra-Commodity are defined, the Corporation will prioritize the ones providing the lowest Core Base Initial Margin.

The combinations and the spread priorities for the Intra-Commodity are updated by CDCC from time to time.

6.1.3 Inter-Commodity

The Corporation may consider the correlation that exists between different Combined Commodities when calculating the Core Base Initial Margin. The Corporation will grant a credit according to the historical correlation of the profit and loss of the two Combined Commodities. If multiple Inter-Commodity are defined, the Corporation will prioritize the ones with the highest correlation.

The Inter-Commodity and the spread priorities are updated by CDCC from time to time.

6.2 Core Base Initial Margin Calculation for Fixed Income Transactions

To calculate the Core Base Initial Margin, the VaR methodology is based on Historical Scenarios for all relevant Risk Factors. The Historical Scenarios consist of a set of scenarios for a Risk Factor over a relevant historical period that represents an hypothetical market observation movement (shocked market observation based on market history) reasonably likely to occur, from the current situation to a specific point in time in the future.

For Fixed Income Transactions, the Risk Factors are the Zero Curves. On any given Business Day, the shocks derived from the Historical Scenarios are applied to the initial reference market inputs values. The difference between the initial reference price and the shocked historical price represents an Historical P&L Scenario. The initial reference price and historical shocked price are derived respectively from the initial reference Zero Curves and the shocked Zeros Curve using a full revaluation method.

The Historical P&L Scenarios are calculated at the VaR Risk Group level and are denominated in the same currency as the Fixed Income Transactions. For Fixed Income Transactions belonging to the same VaR Risk Group, the Historical P&L Scenarios results are added up for Fixed Income Transactions.

Lastly, the Historical P&L Scenarios are ranked to derive the Historical P&L Distribution that is used to calculate the average loss of the portfolio using the Expected Shortfall method. The Core Base Initial Margin is then obtained by combining the historical risk component (based on the Expected Shortfall methodology) with a Stress Risk component (based on the Stressed Value at Risk methodology) using a weighted approach.

The main steps to calculate the Core Base Initial Margin are described in the section below.

6.2.1 Historical Filtered Scenarios

The Historical Filtered Scenarios are generated using the initial reference Risk Factors value and historical observations of different tenors on the Zero Curves.

The shocked Risk Factors are calculated using the following formula:

$$W'_{t,t+\tau} = VV_{T,t+\tau} + PP_{t,t+\tau} PP_{t,t+\tau}$$

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Where PP is the scaling factor for the volatility scaling adjustment and PP is the daily market variation over the Margin Period of Risk 'n'. CDCC uses a look-back period of 5 years.

$$PP_{tt,\tau\tau} = VV_{tt,\tau\tau} - VV_{tt-nm,\tau\tau}$$

The scaling factor formula at time t and for a given tenors is calculated using the following formula:

$$PP_{tt,\tau\tau} = \frac{\sigma_{TT,\tau\tau} + \sigma_{tt,\tau\tau}}{2}, \text{ } MMPPCC \text{ } PPSS$$

Where σ is the EWMA volatility forecast and min SF is the minimal scaling factor.
The implemented formula for the EWMA volatility forecast is:

$$\sigma_{tt,\tau\tau}^2 = (1 - \lambda\lambda)PP_{tt,\tau\tau}^2 + \lambda\lambda\sigma_{tt-1,\tau\tau}^2,$$

Where PP is the daily market variation over the Margin Period of Risk 'n' and $\lambda\lambda$ is the decay factor. CDCC uses $\lambda\lambda = 0.99$. The min SF is updated by CDCC from time to time.

6.2.2 Historical P&L Scenario generation

The Historical P&L Scenarios are valued by calculating the difference between the shocked prices of Fixed Income Transactions under an Historical Filtered Scenario and the initial reference prices. The Historical P&L Scenarios results are added up for all Fixed Income Transactions within a VaR Risk Group.

The initial reference prices are calculated using a full revaluation method and the initial reference Risk Factors. The shocked prices are calculated using a full revaluation method and the shocked Risk Factors.

6.2.3 Expected Shortfall

For each VaR Risk Group, the Historical P&L is sorted from largest loss to largest profit to construct the Historical P&L Distribution. Using a confidence value equivalent to 99.62% and the Historical P&L Distribution, the Expected Shortfall is determined by averaging the losses exceeding the confidence value.

6.2.4 Stressed Value at Risk (SVaR)

In addition, CDCC considers a Stress Risk component based on the Stressed Value at Risk (SVaR) methodology to mitigate the procyclicality of margins:

$$BBCCBBPP \text{ } MMCCPPCCPPCCVV \text{ } MMCCPPMMPPCC = (1 - ww) \times HHPPBBCCCCPPPPPPCCVV \text{ } PPPPBBoo + ww \times PPCCPPPPBBB \text{ } PPPPBBoo$$

Where the Stress Risk component is equal to a confidence level equivalent to a minimum of 99% of the ranked distribution of the absolute stressed P&L over a fixed period of a minimum of 260 days with a high market volatility, a variable number of days as MPOR and a weighting factor of 25% ('w'). The stressed P&L are also calculated using a full revaluation method and the Risk Factors.

The SVaR methodology is applicable to all VaR Risk Groups.

6.3 Recalibration of the Effective Ratio

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The Core Base Initial Margin requirement of each Limited Clearing Member is affected by a multiplication factor (the “Effective Ratio”).

Objective: The Recalibration Methodology (as defined below) ensures that the Effective Ratio remains continuously consistent with the ratio of the total Clearing Fund Requirements in respect of the Core Tranche of the Clearing Fund on the total Core Base Initial Margin for all Clearing Members (excluding Limited Clearing Members) and addresses the permanence and persistence of a change.

Trigger: The Corporation shall review the Effective Ratio annually, and may review the Effective Ratio at any time following a change to the CDCC risk model which is required in order to comply on an ongoing basis with the regulatory requirements applicable to CDCC (“Risk Model Change”). Following such review, CDCC may recalibrate the Effective Ratio in accordance with the methodology set forth below (the “Recalibration Methodology”). For further clarity, a Risk Model Change captures both changes required by CDCC to comply on an ongoing basis with its current regulatory requirements and changes required to comply on an ongoing basis with applicable regulatory requirements.

6.3.1 Recalibration Methodology

The Effective Ratio (“ER”) shall be re-calibrated if the value of the ER, at the time of the calculation, is not within the range determined by the UB and LB (as defined below):

- Where the current ER is within one plus the Boundaries (defined below) applicable to a given period, no recalibration will be made to the Effective Ratio.
 - The Boundaries refer to the upper limit (UB) and lower limit (LB) which are respectively the highest and lowest Daily Ratios over a specific period.
 - The Daily Ratio is determined, for any Business Day, by dividing the total amount of Clearing Fund Requirements in respect of the Core Tranche of the Clearing Fund on that Business Day by the aggregate amount of the Core Base Initial Margin requirements of all Clearing Members (other than Limited Clearing Members) on the same Business Day.
- Where the current ER is outside one plus the Boundaries applicable to a given period, this will constitute a recalibration event (a “Recalibration Event”), and the ER shall be recalibrated in the following manner:
 - The Boundaries of Effective Ratio shall be rounded up or down to the nearest +/- 0.1 increment.
 - If $ER > 1 + UB$, the new Effective Ratio shall be equal to the UB.
 - If $ER < 1 + LB$, the new Effective Ratio shall be equal to the LB.
 - If $ER \leq 1 + UB$ and $ER \geq 1 + LB$, there is no Recalibration Event.

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- Annually, the Corporation shall determine the upper limit (UB) and lower limit (LB) parameters in accordance with the following:
- At the time of the calculation, the UB and LB are determined by taking respectively the highest and lowest Daily Ratios over the prior calendar year, in accordance with the following formulas:

$$LLC_{wvPPPP} \quad LLC_{LLPP} \quad LB_t = \frac{TTCCCCCV \quad CCSS_t}{TTCCCCCV \quad BBCCBBPP \quad MMMM_t} \quad t \quad \text{[]}$$

$$UUUUUUPPPP \quad LLC_{LLPP} \quad UB_t = \frac{TTCCCCCV \quad CCSS_t}{TTCCCCCV \quad BBCCBBPP \quad MMMM_t} \quad t \quad \text{[]}$$

Where:

- $TTCCCCCV \quad CCSS_t$: total amount of Clearing Fund Requirements in respect of the Core Tranche of the Clearing Fund on the Business Day t .
- $TTCCCCCV \quad BBCCBBPP \quad MMMM_t$: the aggregate amount of the Core Base Initial Margin requirements of all Clearing Members (other than Limited Clearing Members) on the Business Day.
- Min: lowest value from the set of Daily Ratios calculated for each Business Day t in the prior calendar year.
- Max: highest value from the set of Daily Ratios calculated for each Business Day t in the prior calendar year.
- Following a Risk Model Change, the Corporation shall determine the upper limit (UB) and lower limit (LB) parameters in accordance with the following:
 - At the time of the calculation, the UB and LB are determined by taking respectively the highest and lowest Daily Ratios, by calculating the Daily Ratio over the prior 12 month-period with the use of simulated impacts to Core Base Initial Margin and the Core Tranche of the Clearing Fund as they would have been observed had the Risk Model Change already been in place:

$$LLC_{wvPPPP} \quad LLC_{LLPP} \quad LB_t = \frac{TTCCCCCV \quad CCSS_t}{TTCCCCCV \quad BBCCBBPP \quad MMMM_t} \quad t \quad \text{[]}$$

$$UUUUUUPPPP \quad LLC_{LLPP} \quad UB_t = \frac{TTCCCCCV \quad CCSS_t}{TTCCCCCV \quad BBCCBBPP \quad MMMM_t} \quad t \quad \text{[]}$$

Where:

- $TTCCCCCV \quad CCSS_t$: total amount of Clearing Fund Requirements in respect of the Core Tranche of the Clearing Fund on the Business Day t .
- $TTCCCCCV \quad BBCCBBPP \quad MMMM_t$: the aggregate amount of the Core Base Initial Margin requirements of all Clearing Members (other than Limited Clearing Members) on the Business Day t .

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- Min: lowest value from the set of Daily Ratios calculated for each Business Day t in the prior 12-month period.
- Max: highest value from the set of Daily Ratios calculated for each Business Day t in the prior 12-month period.
- For greater certainty, for the purposes of the calculating a Daily Ratio, the term “Core Base Initial Margin” excludes any Additional Margins.

6.3.2 Recalibration Governance

- On a quarterly basis, CDCC will report to the Risk Management Advisory Committee (RMAC) for information purposes the Boundaries calculated over the preceding quarter.
- On an annual basis, CDCC will report to RMAC the final Boundaries applicable over the preceding calendar year.
- Following a Risk Model Change CDCC will promptly report to RMAC on the impact of the Risk Model Change on the Boundaries, including whether it leads to a Recalibration Event, and review the Risk Model Change in accordance with the RMAC standard governance process.
- Annually, or subsequent to any Risk Model Change, each Limited Clearing Member will be notified in writing of the new ER, where applicable.

6.3.3 Entry in force

- Annually, or as soon as practicable upon the occurrence of a Recalibration Event subsequent to a Risk Model Change, the Corporation shall notify in writing each Limited Clearing Member of the new ER applicable to it.
- Subject to Section 7.3.4, new ERs shall become effective one calendar quarter after the date of the notification to each Limited Clearing Member of the new ER, and shall remain in force until a revised ER notified to the Limited Clearing Member either as a result of the ER annual review or subsequent to a Risk Model Change enters into force, in accordance with this section.

6.3.4 Recalibration Additional Information

- If the Corporation notifies an Limited Clearing Member of the new ER applicable to it, the Corporation shall provide the Limited Clearing Member with the data supporting the determination that a Recalibration Event has occurred.
- Within 10 Business Days of receiving notice of the new ER applicable to it, an Limited Clearing Member may request additional information regarding the Recalibration.

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- Upon receiving such request and in any event, within 5 Business Days following such request, the Corporation will provide additional information respecting the Recalibration Event.
- A Limited Clearing Member may dispute a Recalibration Event by notifying the Corporation that it requires it to be discussed at the next following quarterly RMAC meeting.
- If a Limited Clearing Member has notified the Corporation and RMAC that it disputes a Recalibration Event and the Recalibration Event has been discussed at the subsequent quarterly RMAC meeting, unless a revision of the ER has been agreed, the new ER shall become effective one calendar quarter after the date of the initial notification by the Corporation of the revised ER to the Limited Clearing Member.

6.4 OTCI Securities Options

In order to evaluate the OTCI Option Price, the implied volatility of the contract must be derived. Two different methodologies are used depending on whether the Option is listed on an Exchange or not.

If the Option is exchange-traded, the Corporation uses the Option's data (the entire Option series for one expiry month) and builds a volatility curve using a cubic spline function. After building the volatility curve, the Corporation determines the implied volatility that corresponds exactly to the strike price of the Option to be assessed. If the expiry date of the Option does not correspond to the ones of the listed series, the Corporation builds two volatility curves, one using the Option series with an expiry date that is right after the one of the assessed Option and one using the series of Options with an expiry date that is right before the one of the assessed Option.

Then, the implied volatility that corresponds to the strike price of the Option to be assessed is determined on each curve. Finally, a linear interpolation is done to determine the implied volatility that corresponds to the strike and to the expiry date of the Option to be assessed. However, if the expiry date of the Option to be assessed is before (after) the first (last) expiry date of the listed Options series, the Corporation uses the volatilities of the volatility curve of the first (last) expiry date of the listed Option series.

If the Option is not listed and no data is available for it, the Corporation uses the yearly historical volatility of the Option's Underlying Interest price as a proxy for the implied volatility.

6.5 Margin Interval

The MI is calculated using the following formula for the historical risk:

$$HHPPBBCCCCPPPPCCVV PPPBB00 = \sigma_{it} \times \alpha \times \sqrt{n}$$

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 CORRA Futures, the S&P/MX International Cannabis Index Futures, the S&P/TSX 60 Dividend Index Futures, and the Bitcoin Price 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 CORRA Futures, the S&P/MX International Cannabis Index Futures, the S&P/TSX 60 Dividend Index Futures, and the Bitcoin Price Index Futures). ' σ_{it} ' 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:

$$\sigma_{\bar{R}}^2 = \frac{(1 - \lambda) \sum_{i=1}^{260} \lambda^{i-1} (P_{t-i} - \bar{P})^2}{(1 - \lambda^{260})}$$

Where \bar{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 $\lambda = 0.99$ (applicable to all products except for the S&P/TSX 60 Dividend Index Futures) or $\lambda = 0.98$ (applicable to the S&P/TSX 60 Dividend Index Futures).

In addition, CDCC considers the following measures to mitigate the procyclicality of margins:

- A Stress Risk component, calculated using a Stressed Value at Risk (SVaR):

$$MMI^* = (1 - ww) \times HHPPBBCCCCPPPPPPCCVV PPPBB00 + ww \times PPCCPPPPBBBB PPPBB00$$

Where the Stress Risk component is equal to a confidence level equivalent to a minimum of 99% of the ranked distribution of the absolute price return of the Underlying Interest or an equivalent Risk Factor over a fixed period of a minimum of 260 days with a high market volatility, a variable number of days as MPOR and a weighting factor of 25% ("ww").

The SVaR is applicable to all Index and Share Futures and Options¹⁷, Bitcoin Price Index Futures¹⁸, as well as all Government of Canada Bond Futures and Option on Government of Canada Bond Futures. For all other products (all short term Interest Rate Futures), the weighting factor is set to zero and only the historical risk component is applicable¹⁹.

- A volatility floor, calculated using the EWMA approach:

$$MMI^{**} = LLCCM(MMI^*, VVCCVVCCCCPPPPPPCCVV fMCCCCPP)$$

Where the volatility floor is calculated as an average of the daily volatility estimator observed over the last 10 years.

- The volatility floor is applicable to all Options, Futures and Unsettled Items.

CDCC also considers a cap for products whose decay factor used by CDCC is below 0.99. The level of such cap is calculated using the distribution of historical daily price returns over a minimum of 10 years.

6.6 Swap Base Initial Margin Calculation

To calculate the Swap Base Initial Margin, the Historical VaR methodology is based on Historical Scenarios for all relevant Risk Factors. The Historical Scenarios consist of a set of scenarios for a Risk Factor over a relevant historical period that represents an hypothetical market observation movement (shocked market

¹⁷ CDCC sets the weighting factor to zero and uses a 25% buffer on the volatility floor as an alternative method in specific cases where a Stress Risk component is not available

¹⁸ Conservative calibration in order to fully capture extreme events and the high intraday risk

¹⁹ Also true for the calculation of the Intra-Commodity.

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observation based on market history) reasonably likely to occur, from the current situation to a specific point in time in the future.

For Proprietary Swap Transactions the relevant Risk Factors are listed below and are specific to the Equity Leg and the Floating Leg. Proprietary Swap Transactions with the same terms and conditions are economically equivalent and may be offset with each other to the extent such offsetting is permitted by the methodology. However, no margin offset is granted between the Equity Leg and the Floating Leg. Furthermore, the primary Risk Factors are different whether the Equity Leg pertains to an Eligible Index or an Eligible Basket. No margin offset is granted between Proprietary Swap Transactions over an Eligible Index and an Eligible Basket.

On any given Swap Business Day, the shocks derived from the Historical Scenarios are applied to the initial reference market values. The difference between the initial reference price and the shocked historical price represents an Historical P&L Scenario. The initial settlement price and historical shocked settlement price are derived respectively from the initial reference Risk Factors and shocked reference Risk Factors using a full revaluation method.

The Historical P&L Scenarios are calculated at the VaR Risk Group level and are denominated in the same currency as the Proprietary Swap Transactions. For Proprietary Swap Transactions belonging to the same VaR Risk Group, the Historical P&L Scenarios results are added up for Proprietary Swap Transactions.

Lastly, the Historical P&L Scenarios are ranked to derive the Historical P&L Distribution that is used to calculate the percentile (VaR) using the Historical VaR methodology. The Swap Base Initial Margin is then obtained by combining the historical risk component (based on the Historical VaR methodology) with a Stress Risk component (based on the Stressed Value at Risk methodology) using a weighted approach. In addition, an Eligible Basket may be subject to the Flat Rate methodology.

Equity Leg

The Swap Base Initial Margin methodology for an Eligible Index or Eligible Basket considers the following Risk Factors:

1. Eligible Index Price / Eligible Share Spot Price,
2. Exchange Rate, and
3. OIS Curve

Floating Leg

The Floating Leg Swap Base Initial Margin computation considers the following Risk Factors:

1. Eligible Index Price / Eligible Share Spot Price,
2. Floating Rate,
3. Exchange Rate, and
4. OIS Curve

The main steps to calculate the Swap Base Initial Margin are described in the section below.

6.6.1 Historical Filtered Scenarios

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The Historical Filtered Scenarios are generated using the initial reference market values and historical Risk Factor observations.

For each of the Risk Factors, historical returns (i.e. absolute and relative) are calculated over the lookback period.

Risk Factor	Shock	Formula
Floating Rate, OIS Rate	Absolute	$\Delta XX_{tt} = XX_{tt} - XX_{tt-1}$
Price, Exchange Rate	Relative	$\Delta XX_{tt} = (XX_{tt} / XX_{tt-1}) - 1$

The historical variance estimator is calculated for each Risk Factor:

$$\sigma_{tt}^2 = (1 - \lambda\lambda)\Delta\Delta XX_{tt}^2 + \lambda\lambda\sigma_{tt-1}^2$$

Where $\Delta\Delta XX$ is the shocked Risk Factor over the Margin Period of Risk 'n' and $\lambda\lambda$ is the decay factor. CDCC uses $\lambda\lambda = 0.99$.

The scaling factor (SF) is calculated and bracketed between a minimum and maximum bounds:

$$PPSS_{tt,T} = \frac{\sigma\sigma\pi}{\sigma_{tt}}$$

Where:

- if $SF_{t,T} \leq \min.SF \rightarrow SF_{t,T} = \min.SF$
- else if $SF_{t,T} \geq \max.SF \rightarrow SF_{t,T} = \max.SF$
- else $SF_{t,T} = SF_{t,T}$

The min and max SF are updated by CDCC from time to time.

6.6.2 Historical P&L Scenario Generation and Historical Value-at-Risk (VaR)

The Historical P&L Scenarios are valued by calculating the difference between the current price and the shocked price under the Historical Filtered Scenarios. The Historical P&L Scenarios results are aggregated within a VaR Risk Group. Finally, the Historical VaR is calculated from a percentile (99%) over the sum of the Historical P&L.

6.6.3 Stressed Value at Risk (SVaR)

In addition, CDCC considers a Stress Risk component based on the Stressed Value at Risk (SVaR) methodology to mitigate the procyclicality of margins. The stressed P&L are also calculated using a full revaluation method with the relevant Risk Factors during the stress period. The SVaR methodology is applicable to all VaR Risk Groups.

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The final Swap Base Initial Margin requirement is then calculated as the weighted sum of the Historical and Stressed VaR components:

$$BBCCBBP \cdot MMCCPPCCPCCV \cdot MMCCPPMMPPCC = (1 - ww) \times HHPPBBCCCPPPPPCCV \cdot PPPBB_{00} + ww \times PPCCPPPPBBB \cdot PPPBB_{00}$$

Where the Stress Risk component is equal to a confidence level equivalent to a minimum of 99% of the ranked distribution of the absolute stressed P&L over a fixed period of a minimum of 260 days with a high market volatility, a variable number of days as MPOR and a weighting factor of 25% ('w'). The stressed P&L are also calculated using a full revaluation method and the Risk Factors.

The SVaR methodology is applicable to all VaR Risk Groups.

6.6.4 Flat Rate Margin methodology

A Basket Share with insufficient price history will be subject to a Flat Rate methodology.

6.6.5 Collateral-in-Margin (CIM) for Proprietary Swap Transactions

Swap Clearing Members are entitled to deposit certain Valued Securities as Collateral-in-Margin ("CIM"). These Valued Securities, combined with Basket Shares under the Historical VaR methodology, may allow for margin offset on the Equity Leg of a Proprietary Swap Transaction.

The Swap Base Initial Margin calculation for CIM positions takes into account the variation of the initial reference market values using the same Risk Factors and Historical P&L Scenarios as other Equity Basket constituents.

DEFAULT MANUAL

BLACKLINE VERSION

DEFAULT MANUAL

[...]

This Default Manual (the “Manual”) intends to summarize the Rules and provides certain details concerning the default management process of the Canadian Derivatives Clearing Corporation (“CDCC” or the “Corporation”) which is comprised of the actions, rights and remedies that the Corporation may take with respect to, and in connection with, Clearing Members in financial difficulty or potentially in default of any or all obligations under the Rules, as well as the governance, steps in implementing the default management and risk mitigation tools available to the Corporation (thereafter the “Default Management Process”). The Manual also addresses the actions, rights and remedies that the Corporation may take with respect to all Clearing Members upon the declaration of a Recovery Process, which also forms part of the Default Management Process. In case of conflict between the provisions set out in this Manual and the Rules of the Corporation, the Rules will prevail. Terms with capitals which are not defined in this Manual have the meanings ascribed to them in the Rules.

A fundamental objective of a central counterparty is to ensure the integrity of payments and/or physical delivery of securities, even in the unlikely event of a Clearing Member default. Since the default of one or more Clearing Members may have an impact on the continuity of clearing operations, the Corporation must ensure that efficient mechanisms and processes are in place, capable of limiting the adverse impacts of such an event, with respect to monitoring and the determination of a Clearing Member’s Non-Conforming Member status and a Clearing Member’s suspension. As such, this Manual is meant to:

1. Describe the grounds and events which may trigger the implementation of the Default Management Process and the enforcement actions that may be taken by the Corporation throughout the process;
2. Describe the governance process followed by the Corporation;
3. Describe the risk mitigation tools that can be used by the Corporation; and
4. Describe the Recovery Process and the related powers.

Section 1 : DEFAULT MANAGEMENT PROCESS - TRIGGERS AND IMPLEMENTATION

The grounds and events which may trigger the implementation of the steps, decisions, enforcement actions or remedies that may be taken by the Corporation as part of its Default Management Process are described below. The Rules, notably Rule A-1A - Membership in the Corporation, Rule A-3 - ~~Capital~~Financial Resilience Requirements, Rule A-4 - Enforcement, Rule A-6 - Clearing Fund Deposits, Rule A-7 - Margin Requirements ~~and~~, Rule A-7A Swap Margin Requirement, Rule D-7 - Clearing of SGC Repurchase Transactions and Rule D-8 Clearing of Proprietary Swap Transactions, support CDCC's authority in these actions and must be adhered to with extreme rigor.

1.1 Objectives of Default Management

Participants in the Default Management Process should at all times bear in mind the objectives of the default management exercise. These are delineated below:

- To minimize Clearing Member losses deriving from an inability of the Corporation to make settlement payments, protect surviving Clearing Members' Margin Deposits, and otherwise manage its responsibilities in a manner consistent with orderly markets.
- To ensure the continued effective functioning of the clearing process both during and after the default of a Clearing Member.
- To use all available powers and resources to protect the financial assets and positions of Clearing Members not contributing to the default. This includes, wherever possible, the comprehensive and efficient transfer by way of Porting of individual client ~~Rick~~Risk Accounts within Client Accounts and Market Maker Non-Firm Accounts with a suspended Clearing Member, including any position maintained in such account and any Margin Deposits held by the Corporation in respect of such account under the GCM Regime, to another Clearing Member as contemplated under Section A-401(3)(b) of the Rules.
- To minimize the market impact of the Default Management Process.
- With respect to SGC Repurchase Transactions, to obtain the best available market price for SGC Securities by executing a timely liquidation process, according to best practices. This includes, whenever possible, a Default Auction and/or the brokered sale of SGC Securities.
- To ensure the continued solvency of the Corporation and timely access to liquidity both during and after the Default Management Process.
- To communicate with regulatory authorities on actions taken throughout the Default Management Process.

Corporation management, staff and agents should conduct themselves at all times during the Default Management Process in a manner consistent with these objectives, and in general without regard to other considerations.

1.2 Triggers Leading to Non-Conforming or Suspension Status

Critical to the process of default management is, of course, defining the grounds and events which can lead a Clearing Member to ~~be in~~ default ~~on~~of its ~~obligation~~obligations and result in the Corporation declaring such member a Non-Conforming Member or suspending it, where warranted. As a general rule, the Corporation views any situation which would, in its judgment, impede a Clearing Member's ability to meet its obligations in the manner specified in Section A-1A04 or Section D-709, as grounds to declare a Clearing Member a Non-Conforming Member. Sections A-1A04, A-1A05 and D-709 of the Rules provide the details of the grounds and events that can lead the Corporation to declare a member a Non-Conforming Member or suspend it, respectively.

For the avoidance of doubt, as indicated in the Rules, the Corporation may in advance of, or in anticipation of, any default, including a breach of eligibility or standard of membership requirement which the Clearing Member is required to meet on an ongoing basis, declare a Clearing Member a Non-Conforming Member.

Where the Non-Conforming Member is insolvent or is unable or likely to be unable to meet its obligations under the Rules on a continuing basis, and has no reasonable prospect of returning to good standing or curing its default within a reasonable timeframe, the Corporation, may then suspend the Non-Conforming Member. The Corporation will act accordingly for any default, whether actual or imminent, that is of such a gravity that suspension would be warranted, taking into consideration the protection of the integrity of the market.

1.3 Status Associated with a Default

The Rules specify two distinct status levels associated with the default of a Clearing Member. The first is Non-Conforming Member status. At any point when the Clearing Member is or may become insolvent or unable to meet its obligations, management of the Corporation may declare that Clearing Member to be a Non-Conforming Member. Section A-1A04 and Section D-709 of the Rules ~~provides~~provide the grounds on which the Corporation may do so. Upon a declaration of Non-Conforming Member status, the Corporation is empowered with the authority, as further specified below, to undertake a wide range of mitigating actions.

After giving consideration to the gravity of the situation and the likelihood of a remediation of the default by the Clearing Member and in order to protect the integrity of the market, the Board may, in its sole discretion, choose to suspend the Non-Conforming Member.

The Corporation's management is responsible to declare a Clearing Member Non-Conforming whereas a suspension decision must be taken by the Board. Please refer to Sections A-1A04 and A-1A05 of the Rules which lay out the specificities of Non-Conforming Member and suspension statuses, respectively.

1.4 Powers of the Corporation in the Default Management Process

1.4.1 Imposition of Additional Margin Call in Pre-Default

In accordance with Section A-702 and Section A-7A02, the Corporation, following a management decision, may, without advance notice and at its sole discretion, impose ~~an~~ a requirement for additional Core Margin and/or additional Swap Margin on a Clearing Member, whether it is a Non-Conforming Member or not, for an indeterminate period. While this may be necessary under a wide range of circumstances, it is particularly relevant in situations where the Corporation has reason to believe a default is imminent but has yet to take a decision on Non-Conforming Member status.

The Clearing Member will be informed and will have to meet such additional Margin requirement within the same deadlines as regular Margin calls.

1.4.2 Implementation of Default Management Process: Non-Conforming Member and Suspension

In the event that the Corporation or the Board, as applicable, chooses to place a Clearing Member in either Non-Conforming Member status or suspension, it must, as soon as practicable, assess the situation and ensure that any and all remedies available to it are at its immediate disposal. The Corporation must use any and all commercially reasonable efforts to manage the default process.

For further clarity, the Corporation may simultaneously declare a Clearing Member to be a Non-Conforming Member and suspend such Clearing Member, without first applying ~~first~~ the measures available under the Non-Conforming Member status.

Taking into consideration the context and materiality of the trigger event and the ability of the Clearing Member to correct the situation within reasonable delay, the Corporation or the Board, as applicable, may therefore choose to undertake any of the following set of actions in its efforts to mitigate associated damage.

1.4.3 Enforcement Actions Pursuant to a Non-Conforming Member Status

- Prohibit and/or impose limitations on the acceptance and ~~and~~/or clearance of Transactions by the Non-Conforming Member.
- ~~Requiring~~Require such Clearing Member to reduce or close out existing Transactions in such Clearing Member's accounts with the Corporation.
- Prevent the withdrawal of or restrict the Non-Conforming Member's right to withdraw any excess ~~in~~Core Margin Deposits or Swap Margin Deposits pursuant to Section A-607 ~~or~~, Section A-704 or Section A-7A04, as applicable.
- ~~Transferring, requiring~~ Transfer, require the Clearing Member to transfer or ~~transferring~~transfer on ~~its such Clearing Member's~~ behalf, all or any portion of a Non-Conforming Member's Client ~~Account~~Accounts maintained by such Clearing Member with the Corporation, any position maintained in such ~~account~~Accounts and any Core Margin Deposits held by the Corporation in respect of such ~~Account~~Accounts, to another Clearing Member.
- Undertake any legal action against the Non-Conforming Member that in the judgment of the Corporation may help to mitigate default-related losses.
- Sanction, reprimand, fine or impose a penalty on the Non-Conforming Member.
- Suspend the Non-Conforming Member.

1.4.4 Enforcement Actions Pursuant to a Suspension

In addition to the actions that the Corporation may take under ~~the~~ Non-Conforming Member status, CDCC may, following the suspension of a Clearing Member:

- Seize all Margin Deposits ~~posted~~deposit to the Corporation by the suspended Clearing Member, including its ~~contribution~~contributions to the Clearing Fund and use ~~its~~such Deposits to satisfy such Clearing Member's obligations.
- Seize control of all Open Positions held by the suspended Clearing Member.
- Liquidate, on behalf of the Trust, all SGC Securities provided by the suspended SGC Clearing Member.
- Restrict a suspended SGC Clearing Member from initiating new SGC Repurchase Transactions.
- Gain access, and, if necessary, control of the suspended Clearing ~~Member's~~Member's prescribed records, so as to ensure the continued efficient processing of business, and to ensure the suspended entity continues to comply with all Rules.
- Use all reasonable efforts to perform efficient transfer by way of Porting of individual client Risk Accounts within Client Accounts and Market Maker Non-Firm Accounts as contemplated under Section A-401(3)(b) of the Rules in a timeframe which is consistent with the Corporation's risk management model.
- Neutralize market exposures through the use of hedging instruments where, as determined by the Corporation, market conditions do not allow for an orderly auctioning or ~~close out~~close-out of a suspended Clearing Member's Open Positions in a timeframe which is consistent with the Corporation's risk management model.

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- Render a determination as to which Firm Accounts and Market Maker Firm Accounts of the suspended Clearing Member (subject to the objective of protecting to the largest extent possible, all Client Accounts and Market Maker Non-Firm Accounts) may have offsets which could be netted for risk reduction purposes.
- Place all accounts of the suspended Clearing Member on liquidation-only status.
- With respect to such accounts, effect liquidation of Open Positions of such Clearing Member, either directly by Corporation staff, or as appropriate, through appointed agents.
- Schedule ~~an auction~~ one or more auctions, as deemed necessary, to transfer all remaining Open Positions to other Clearing Members at the best available prices.
- Transfer Proprietary Swap Transactions to other Swap Clearing Members on a voluntary basis at the best available prices prior to the Default Auction with respect to Proprietary Swap Transactions.
- Potentially postpone delivery obligations in accordance with Rule A-8 if, in the judgement of the Corporation, not doing so would expose the Corporation and surviving Clearing Members to increased risk of financial loss.
- Potentially delay temporarily until the end of the business day the payment by CDCC of the Swap Net Settlement Amounts described in Section D-816(3), if in the judgment of the Corporation, doing so would not expose the Corporation and surviving Clearing Members to increased risk of financial loss.
- Apply any and all available financial resources, as further described below.

1.5 Default Management Period

The Default Management Period defines the period during which Clearing Members' financial resources are exposed to losses following a default from one or more other Clearing Members.

While the exact definition is provided in Rule A-411, the intent is to define the Default Management Period as the period starting from the suspension of a Clearing Member and ending when this default has been completely managed and the Corporation declares the Default Management Process to be completed. A default is deemed to be completely managed when:

- All obligations, losses and expenses are known or can reasonably be determined and have been successfully absorbed or otherwise settled; and
- The Corporation has successfully ~~reestablished~~ re-established a matched book.

For example, if a second Clearing Member suspension occurs during the Default Management Period, this period is extended and will end when the two defaults have been completely managed. Hence, if the second default occurs while the Corporation is still managing at the first one, the maximum amount of Clearing Members' financial resources potentially exposed to losses will remain the same for the duration of the Default Management Period whether one or several defaults are processed.

1.6 Default Waterfall: Application of Financial Resources to Cover Default-Related Losses

In implementing the Default Management Process, the Corporation will aim at minimizing, to the extent possible and on a best-efforts basis, the losses to the Corporation and its stakeholders. If there are nonetheless losses to the Corporation, the Corporation must apply, in a specified order, a series of financial resources to ensure its ongoing viability and financial solvency. The sections 1.6.1 to 1.6.4 below describe the financial resources which form the Default Waterfall and the order in which CDCC will apply them to

cover losses associated with the liquidation of a suspended Clearing Member. ~~Elements 1.6.1 to 1.6.3 are referred to as “Prefunded Financial Resources”.~~

i. **Suspended Clearing Member Resources**

- Suspended Clearing Member Margin Deposit (other than Clearing Fund deposits). The first line of financial protection is the Margin Deposit posted by the suspended Clearing Member as part of the Corporation’s routine collateralization process;
- Excess in the Firm Margin Deposit Account will be available to the Corporation as part of the Default Waterfall or otherwise available to cover shortfalls resulting from uncovered losses in Client Accounts and Market Maker Non-Firm Accounts; Excess in GCM Margin Deposit Account and/or Non-GCM Margin Deposit Accounts will not be available to the Corporation as part of the Default Waterfall; ~~and~~
- Suspended Clearing Member’s Clearing Fund deposits. As specified by the Rules, each Clearing Member (other than ~~a~~-Limited Clearing ~~MemberMembers~~) must also post a contribution to the Clearing Fund. Once the Corporation has exhausted the suspended Clearing Member’s Margin Deposit, it will next use the suspended Clearing ~~Member’sMember’s~~ contribution to the Clearing Fund in its loss absorption effort-; and
- Suspended Clearing Member’s Supplemental Liquidity Contributions. Once the Corporation has exhausted the suspended Clearing Member’s Margin Deposit and Clearing Fund Deposits, it will next use the suspended Clearing ~~Member’sMember’s~~ Supplemental Liquidity Contributions.

CDCC will first use suspended Clearing Member resources in respect of the Core Tranche of the Clearing Fund to cover the losses related to the Core Products and will use resources in respect of the Swap Tranche of the Clearing Fund to cover the losses related to Proprietary Swap Transactions. Any remaining excess suspended Clearing Member resources with respect to Core Products will then be used to cover outstanding losses related to Proprietary Swap Transactions and any remaining excess suspended Clearing Member resources with respect to the Proprietary Swap Transactions will then be used to cover outstanding losses related to Core Products, as applicable, in each case using the same order as described above. If after applying these resources of the suspended Clearing Member, a shortfall still remains in respect of Core Products, Proprietary Swap Transactions or both, the Corporation would, as indicated below, use the resources of the Corporation to cover the losses.

ii. **Resources of the Corporation (Default Risk Capital - DRC)**

- CDCC has capital reserves set aside specifically for the purpose of absorbing any loss outstanding after the exhaustion of the suspended Clearing Member’s resources. This capital, which is \$15 million, is referred to herein as “Default Risk Capital” or “DRC”. “DRC”. DRC will be used whether the loss arises from the liquidation of Core Products or Proprietary Swap Transactions.

iii. **Surviving Clearing Members Clearing Fund Requirements**

If, after applying ~~these~~the resources of the suspended Clearing Member and of CDCC, a shortfall still remains, CDCC will, as indicated below, use the required Clearing Fund deposits (referred ~~therein as “Clearing Fund Requirement”~~) of the other Clearing Members to cover the loss~~herein as “Clearing Fund Requirement”~~) of the other Clearing Members to cover the loss. CDCC will first use the Core Tranche of the Clearing Fund to cover the outstanding losses related to Core Products and use the Swap Tranche of the Clearing Fund to cover the outstanding losses related to Proprietary Swap Transactions. Any remaining excess of the Core Tranche of the Clearing Fund will be used to cover outstanding losses related to Proprietary Swap Transactions and any remaining excess of the Swap Tranche of the Clearing Fund will be used to cover outstanding losses related to Core

Products, as applicable. For further details on the loss allocation, please refer to Appendices 2 and 3.

In the event the Corporation's DRC is partially used or exhausted in its entirety, the Corporation shall fully replenish its DRC by executing against or having recourse to its recapitalization plan.

~~i. Surviving Clearing Members Clearing Fund Requirements~~

- ~~• The Corporation will subsequently use the Clearing Fund Requirements of the surviving Clearing Members (i.e. the Clearing Members that have not been suspended). For further details on the loss allocation, please refer to Appendix 2.~~

The above set of financial resources (listed in (i) to (iii) ~~))),~~ which form the prefunded financial resources of the Default Waterfall (the "Prefunded Financial Resources") and are readily available for the Corporation to extinguish financial losses stemming from a Clearing Member's default, are deemed highly reliable as they are under the control of CDCC and are held for this sole purpose. All Margin and Clearing Fund deposits are subject to a first ranking security interest granted by the Clearing Members to CDCC for such purpose.

iii.iv. **2nd Surviving Clearing Members' Clearing Fund Requirements**

- If after applying all of the financial resources specified above, a loss still persists, the Corporation may request that the remaining Clearing Members (other than Limited Clearing Members) replenish their Clearing Fund Requirements, in the manner specified in ~~Section A-610 of its~~ the Rules. The Corporation in total may apply up to a maximum of 200%¹ of the Clearing Fund Requirements of all such remaining Clearing Members, to satisfy the outstanding obligation as provided in Section A-609(5).

The Corporation shall follow the prescribed order of the Default Waterfall, and communicate with all relevant parties in an effective fashion. In the event that the Corporation is able to recover any loss incurred from the suspended Clearing Member, it shall first reimburse any other Clearing ~~Member~~ Member's Clearing Fund Requirements that were used to extinguish losses, in the reverse order of their application, before reimbursing CDCC's own capital reserves used.

iv.v. **Surviving Clearing Members' Supplemental Liquidity Contributions**

- If, at any time during a Default Management Process, the Corporation must honor any liquidity obligations or exposure on a timely basis as a result of the suspension of a Clearing Member, the Corporation shall be authorized to use the Core Tranche of the Supplemental Liquidity Contributions required of the surviving Clearing Members to meet the Fund to cover liquidity obligations or exposure in respect of Core Products and the Swap Tranche of the Supplemental Liquidity Fund to meet liquidity obligations or exposure in respect of Proprietary Swap Transactions, as applicable. All surviving Clearing Members' Supplemental Liquidity Contributions used by the Corporation shall be paid back by the Corporation to the Supplemental Liquidity Fund after the Default Management Period has ended. In total, the Corporation may apply up to a maximum of 200% of the Supplemental Liquidity Contributions of all such surviving Clearing Members, as provided in Section A-6A08 of the Rules.

v.vi. **Application of Financial Resources to Cover SGC Repurchase Transaction Default-Related Losses**

- The Corporation will aim at maximizing, to the extent possible and on a reasonable efforts basis, the available liquidation value of the SGC Securities, through the use of Default Auction

¹ The maximum percentage of 200% includes the prefunded surviving Clearing Members Clearing Fund Requirements described in sub-section iii.

and/or broker sale. If there are any outstanding losses after the liquidation of SGC Securities pursuant to this Section 1.6, these losses are absorbed by the ~~Noteholders~~holders of the applicable SGC Notes.

- For greater certainty, SGC Clearing Members do not contribute to any Clearing Fund ~~and/or~~ Supplemental Liquidity Fund for SGC Repurchase Transactions. The Default Management Process for SGC Repurchase Transactions does not benefit from the ~~Corporation's~~Corporation's Default Risk Capital.

1.7 Making Good on Charges to Clearing Fund

As described in Sub-~~section~~section 1.6 above on the Default Waterfall, a surviving Clearing Member is potentially exposed to a loss representing 2 times its Clearing Fund Requirement during a Default Management Period. However, the Corporation must have the capacity to replenish promptly any depleted financial resources to ensure that CDCC maintains appropriate financial resources to continue to operate in a safe and prudent manner and maintain its Cover 1² status. As such, each Clearing Member (other than a Limited Clearing ~~Member~~Members) is subject to an obligation to make good on charges to the Clearing Fund whenever an amount is paid out of the Clearing Fund Requirement. During a single Default Management Period, each Clearing Member is however only liable to make good an additional 200% of its Clearing Fund deposit required at the beginning of the Default Management Period. The additional contribution must be made no later than 2:00 p.m. on the Business Day following the date that the amount is paid out unless the Corporation issues a notice specifying a later date.

² The Cover 1 regulatory standard requires the Corporation to have at all times sufficient financial resources to cover the default of the Clearing Member and its Affiliates representing the largest stressed aggregate credit exposure for the Corporation.

Section 2 : DEFAULT MANAGEMENT GOVERNANCE

In this section, the Corporation outlines the specific actions to be taken by its staff, management and the Board, in order to ensure that it quickly identifies, reacts to, and effectively manages a condition of default. The two sub-sections are:

1. Governance Structure; and
2. Roles and Responsibilities upon a Declaration of a Non-Conforming Member or suspension.

2.1 Governance Structure

The Corporation's procedures for the management of a default are governed, under the auspices of its Board, by two Committees and an advisory group, presented below in their hierarchical order:

- Default Management and Recovery Committee ("~~DMC~~")
 - i. Emergency Committee ("ECMDRC")
 - In the default process, it is important for the Corporation to react in as timely a fashion as possible to identify the potential for a default by a Clearing Member. As such, under the authority of the President or his designee, if at any point the Corporation receives information which would, in its view, acting reasonably, likely lead to a default event by any Clearing Member, it will, as soon as practicable, convene a meeting of the Default Management and Recovery Committee. The DMCMDRC is comprised of the individuals holding the following positions (or their delegates):
 - President of CDCC
 - Vice-President & Chief Risk Officer, CDCC
 - Vice-President & Chief Operating Officer, CDCC
 - Vice-President & Chief Commercial Officer, CDCC
 - Treasurer, CDCC
 - Director Risk Oversight & Compliance, CDCC
 - Vice-President Integrated Operations, GES
 - Director Strategic Initiatives, CDCC
 - Director, Business Advisory and Regulatory Affairs, CDCC
 - Chief Compliance Officer, CDCC
 - Head of Delivery, CDCC

Each of these individuals, in managing their departments, must act with due rigor to assess issues, identify associated magnitudes, recommend actions and inform management, the Board and other Corporation stakeholders, as appropriate.

The responsibility of the DMCMDRC is to make decisions related to the Default Management Process, e.g. the determination of ~~the~~ Non-Conforming Member status and actions to be implemented to limit losses to the Corporation and the conforming Clearing Members. The DMCMDRC can count on the participation of a sub-committee ~~committees~~ to (i) help perform its mandate, namely the Emergency Committee ("EC"), and (ii) formulate the hedging and liquidation strategy, namely the Default Management Group ("DMG").

ii. Emergency Committee

The EC, chaired by the ~~VP and~~ Vice-President & Chief Risk Officer or his designee, is composed of all ~~DMC~~DMRC members plus the following specialists (and/or any other representatives or designees deemed appropriate to involve in the process):

- MX Vice-President, Regulatory Division
- Head of Corporate Communications, TMX
- Director, Market Operations, MX
- Managers, Risk Management

It will be the responsibility of the EC to provide an ongoing assessment of the situation, and to report, as appropriate, to the Board, so as to ensure these bodies are in a position to render informed decisions throughout the process.

iii. Default Management Group

The DMG, chaired by the VP and Chief Risk Officer or his designee, is composed of all DMRC members plus specialists from different Clearing Members appointed by CDCC. The responsibility of the DMG is to analyze the situation and provide recommendations on the liquidation and hedging strategy.

2.2 Roles and Responsibilities Upon a Declaration of Non-Conforming or Suspension

The Rules provide for two statuses associated with the default of a Clearing Member: Non-Conforming Member status and suspension. Non-Conforming Member status can be determined by the Corporation's management, while a suspension must be determined by the Board.

2.2.1 Declaration of Non-Conforming Member Status

Grounds

Section A-1A04 addresses the grounds upon which the Corporation may declare ~~the~~ Non-Conforming Member status. As expressed in Section A-1A04, these grounds are not exhaustive.

Communication

The Clearing Member should notify the Corporation if it is insolvent or unable to honor its obligations under the Rules.

However, in the event that the Clearing Member is declared as a Non-Conforming Member by the Corporation, the Corporation must inform the Clearing Member in writing or by telephone.

Authority

The Corporation may decide on Non-Conforming Member status.

Required Response by Non-Conforming Members

A Clearing Member which has experienced an event, technical or otherwise, as a result of which it fails or finds itself likely to fail to meet any of its day-to-day operational needs for its business must inform the Corporation immediately of such event. Failure to notify the appropriate Corporation staff members immediately may result in any actions contemplated under the Rules,

including disciplinary actions. A Non-Conforming Member may in certain cases remedy its situation ~~viably~~ wiring required funds or posting additional collateral to the Corporation.

Contemporaneous to the notification of Non-Conforming Member status to a Clearing Member, the Corporation will ask such Clearing Member to state in writing its assertions with respect to each of the following:

- Cause of the action which placed it in Non-Conforming Member status;
- Remedies for the immediate circumstance; and
- Changes in its financial profile and operating protocols to guard against recurrence.

Corporation staff will work with the Non-Conforming Member to secure and assess its written response. Contemporaneously, the EC will work with the ~~DMACDMRC~~ to determine any potential immediate additional actions, including recommendations to the Board regarding suspension.

In the event that a remedy occurs in a timely fashion, the Corporation will review the Non-Conforming Member's written explanation and will then determine next steps, including the potential removal of Non-Conforming Member status, or recommendations to the Board for suspension.

In executing these procedures, the Corporation must remain mindful of the narrow time window available to it to determine the next steps in the process. It is essential that all members of management and all Board members make themselves available as necessary to render timely and efficient decisions under these circumstances.

Implementation

The Corporation must work in concert with the Non-Conforming Member and the appropriate regulatory authorities to rectify the Clearing Member's Non-Conforming Member status.

The enforcement actions available to the Corporation, as set out under Section A-401 and as further explained in Section 1 of this Manual, are not exhaustive and are not necessarily presented in chronological order, and can be adapted as required by the Corporation according to the circumstances that prevail during the period the Clearing Member is a Non-Conforming Member.

Notifications

Once the Corporation has declared a Clearing Member to be a Non-Conforming Member, the Corporation will immediately consider its notice obligations. Those entities whose notification is considered include:

- The Clearing Members
- Appropriate regulatory authorities
- Exchanges and central clearing organizations ("CCOs")

While it will be the prerogative of the Corporation to determine the timing and content of its outside disclosures, it will nonetheless immediately inform any CCOs with which the Corporation has in place a Memorandum of Understanding for such information sharing.

2.2.2 Declaration of a Suspension

Grounds

A Non-Conforming Member may be suspended in accordance with Section A-1A05 ~~including which suspension may include~~ any conditions that the Corporation may reasonably deem relevant in accordance with Section A-1A05. Sub-section 1.2 of this Manual also discusses the triggers which may lead to a suspension. ~~In effect,~~ The Corporation, upon approval of the Board, may decide to suspend a Clearing Member without it first having been declared a Non-Conforming Member.

Communication

The Corporation will communicate to the Clearing Member a written statement setting out the grounds for its suspension.

Authority

The Board has the authority regarding the suspension and lifting of a Clearing Member's suspension.

Implementation

Once the Board approves a suspension, the Corporation ceases to act on behalf of ~~the~~such suspended Clearing Member.

~~According to~~In accordance with Section A-1A05, the Corporation may then implement any of the enforcement actions set out under Section A-401 and as described in Section 1 of this Manual.

~~As mentioned in~~In accordance with Section A-1A05, 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.

The Board may lift a Clearing Member's suspension at any time.

Notifications

Once the Board has declared a Clearing Member to be suspended, the Board will immediately consider its notice obligations. Those entities whose notification is considered include:

- The Clearing Members
- Appropriate regulatory authorities
- Exchanges and CCOs

While it will be the prerogative of the Board to determine the timing and content of its outside disclosures, it will nonetheless immediately inform any CCOs with which the Corporation has in place a Memorandum of Understanding for such information sharing.

Appeal

~~According~~Pursuant to Section A-1A07, the suspended Clearing Member may appeal a suspension decision. Such appeal does not impede the actions of the Corporation in the Default Management Process.

Section 3 : RISK MITIGATION TOOLS

Once a Clearing Member has been suspended, the Corporation shall take specific actions in order to protect the Corporation and the surviving Clearing Members. Conceptually, these actions can be aggregated into three categories and are normally executed in the order presented. While some actions might have been initiated by the Corporation pursuant to a declaration of Non-Conforming Member status, including, namely, the transfer of Client Accounts and MarketMarket Maker Non-Firm Accounts (outside of the Porting process), this section details how the Corporation will implement the risk mitigation tools, upon the suspension of the Clearing Member.

- **Prevention:** Prevention controls are the starting point of the management of a default under the suspension status. They are focused on preventing new Transactions to be cleared in the suspended Clearing Member's books.
- **Control:** Such actions are focused on taking control over the suspended Clearing Member's assets and positions.
- **Risk mitigation:** Such actions are focused on transferring by way of Porting as contemplated in Section A-401(3)(b) of the Rules, transferring risks, re-establishing a matched book, and neutralizing risks, at the lowest cost possible for the Corporation and the surviving Clearing Members, while managing the liquidity risk associated with the Default Management Process.

This section provides more information on the risk mitigation tools available to the Corporation.

3.1 Transfer by Way of Porting of Individual Client Risk Accounts

The Corporation will attempt, if it deems ~~appropriates~~appropriate under the circumstances and on a best effort basis, to transfer by way of Porting client Risk Accounts within Client Accounts and Market Maker Non-Firm Accounts, to the books of other Clearing Members. Note that, as specified in Sub-section 1.1 (Objectives) of this Manual, the efficient and comprehensive transfer by way of Porting of all individual client Risk Accounts is an identified objective of the Default Management Process. For the avoidance of doubt, this includes transferring any Open Positions maintained in such account, or any account carried by such Clearing Member and any associated collateral (referred to herein as "Porting Base Core Initial Margin Collateral") held by the Corporation in respect of such account, to another Clearing Member as contemplated in Section A-401(3)(b) of the Rules.

3.1.1 Procedure Related to a Transfer by Way of Porting

- The procedure related to the transfer by way of Porting will start for CDCC immediately after the suspension of the Clearing Member and will continue until the end of the Default Management Period. Upon receipt of an updated GCM Declaration File and other client identification confirmation from the suspended Non-Conforming Clearing Member, CDCC will perform a Base Core Initial Margin calculation (~~thereafter the~~each a "Suspension Point Margin Calculation"). The updated GCM Declaration File is required for CDCC to determine the Open Positions and the Porting Base Core Initial Margin Collateral for each individual client Risk Account. As outputs from the ~~Suspended~~Suspension Point Margin Calculation, CDCC will produce reports containing porting information data, which it will make available to each client via its suspended Non-Conforming Clearing Member or by any other acceptable manner to CDCC.
- Clients wishing to be transferred by way of Porting are required to provide transfer instructions to CDCC (~~via it~~through the applicable Receiving Clearing Member or by any other acceptable manner to CDCC) no later than noon on the next Business Day following the initiation of the transfer process.
- CDCC will use its best efforts, if it deems appropriate under the circumstances, following the request of a client, to transfer, the client's Open Positions and the Porting Base Core Initial Margin Collateral held by the Corporation in respect of such individual client Risk Account, to the applicable Receiving Clearing Member. The aforementioned is subject to (1) the consent of the Receiving Clearing Member and CDCC, (2) the completion of any additional documentation required to proceed with a transfer by way of Porting.

3.1.2 Procedure Related to Post-Confirmation of a Transfer by Way of Porting

Immediately upon providing CDCC with its confirmation of accepting a client from a suspended Non-Conforming Member, a Receiving Clearing Member providesis deemed to have provided its irrevocable acceptance of receiving the client Risk Account. The Receiving Clearing Member also becomes fully liable for authenticating the identity of the client requesting a transfer by way of Porting. Once CDCC confirms proceeding with the transfer by way of Porting of a client to such Receiving Clearing Member, the latter will also be fully liable for all obligations related to the client ported Risk Account during and after the Default Management Period.

The Core Margin requirement impact of the incremental positions contained in the ported Risk Account is considered immediately, but the amount of collateralCore Margin agreed to be ported by the Corporation to the Receiving Clearing Member in relation to the ported Risk Account will be considered as collateralCore Margin Deposit covering this Core Margin requirement. Any failure by the Receiving Clearing Member to accept a transfer by way of Porting of positions and/or to meet any obligations associated with the ported Risk Account will be deemed a breach of obligations and such Clearing Member shall become liable for all fees, expenses and obligations incurred by the Corporation in connection with such Clearing Member's failure to meet or honor its obligations. A failure by such Clearing Member to pay the costs and damages or meet any other obligations will automatically result in the determination by the Corporation of a Non-Conforming Member status. The Corporation will also notify all Clearing Members of the successful completion, or failure, as the case may be, of a transfer by way of Porting.

3.2 Liquidation

Upon a Clearing Member suspension, the Corporation may either liquidate, close -out, and/or auction the suspended Clearing Member's positions as a means to crystallize their value and re-establish a matched book. The liquidation process may take place before, in parallel or subsequent to any auction(s) if the Corporation is not satisfied with the auction(s) outcome. For example, the liquidation could be preferred to the auction if the suspended Clearing Member's portfolio is small and liquid. A portfolio that wasis proposed to be liquidated is a "Liquidation Portfolio" and a successfully liquidated portfolio shall be referred to as a "Liquidated Portfolio". Additionally, for the liquidation of Proprietary Swap Transactions, the Corporation may also close out the suspended Clearing Member's positions by transferring them to surviving Clearing Members at the best available prices on a voluntary basis or executing liquidations via interdealer brokerage. For the liquidation of SGC Securities, the Corporation will use Default Auction and/or broker sale to obtain the best available liquidation value. Bids will be compared on each source and the prevailing bid will be accepted.

3.3 Default Auction

CDCC may also choose to organize one or more Default Auctions as a means to re-establish a matched book following the suspension of a Clearing Member. The auction may affect a portion or the entirety of the suspended Clearing Member's unmatched positions. CDCC may also choose to organise one or more Default Auctions as a means to liquidate the suspended Clearing Member's positions and SGC Securities. The terms and the procedure governing the Default Auction are summarized below:

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 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 ~~to~~in the Default Auction is ~~voluntary~~mandatory for all Eligible Clearing Members. ~~However, the~~ Participation in the Corporation's annual default ~~and recovery~~ simulation is mandatory for all Clearing Members.
 - ~~For each Auction Portfolio~~Clearing Members who participate in the auction are referred to as "Auction Participants".
 - For all CDCC products, except Proprietary Swap Transactions, the Corporation will notify all eligible Clearing Members of the upcoming auction for each Auction Portfolio. 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".~~
 - For Proprietary Swap Transactions, CDCC will provide all eligible Clearing Members with the details of the Default Auction, including auction time, auction format and other relevant details pertaining to the auction process.
 - 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.
 - For SGC Securities Default Auctions, conforming SGC Clearing Members and any other Fixed-Income Clearing Members will be invited to participate in ~~the Auctions~~such auction.

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

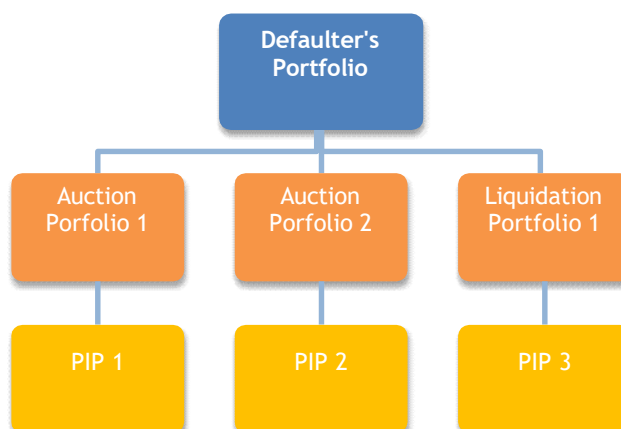
⁴ An indirect participant must, as part of the CDCC annual due diligence process, demonstrate that it is an active participant in the relevant market with a pre-established relationship with another Clearing Member acting as its Clearing Member for that relevant asset class.

b) Auction Portfolio determination

- The Corporation may auction the suspended Clearing Member's portfolio in whole or in part, by decomposing it into smaller Auction Portfolios, ~~if deemed necessary, for Derivative Instruments, Fixed Income Transactions and SGC Securities, if deemed necessary (single-unit auction).~~ For Proprietary Swap Transactions, the suspended Clearing Member's portfolio will be auctioned as a single whole portfolio, with Swap Clearing Members bidding on a percentage of the entire Auction Portfolio (multi-unit auction).

c) Allotment of financial resources to Portfolio Incentive Pools

- Before conducting an auction, the Corporation will allot, on a preliminary basis⁵, the Prefunded Financial Resources to each Portfolio Incentive Pool related to each Auction Portfolio or ~~Liquidated~~Liquidation Portfolio. ~~For Proprietary Swap Transactions, the suspended Swap Clearing Member's portfolio is only to be allotted into one Auction Portfolio or one Liquidation Portfolio with its respective~~ Portfolio Incentive Pool. The Portfolio Incentive Pool approach is not applicable to SGC Securities Auction Portfolios.



- A Portfolio Incentive Pool ("PIP") represents a pool of financial resources allotted by CDCC to one specific ~~portfolio to be auctioned or liquidated~~ Auction Portfolio or Liquidation Portfolio.
- A detailed description of such a process is provided in Appendix 1. This step will allow CDCC to:
 - Estimate the amount of Prefunded Financial Resources allotted to each portfolio which could be used to absorb losses in connection with the liquidation or the auction of each portfolio, and
 - Inform each Eligible Clearing Member of the portion of its Clearing Fund Requirement attributed to each Auction Portfolio which could be at risk of being used to extinguish losses.

⁵ The final allocation of financial resources to absorb losses, i.e. to discharge CDCC of obligations or losses, can only be done once the amount of losses are known and final, as described in Section 3.6.

- Additionally, for the Auction Portfolio in a Default Auction with respect to Proprietary Swap Transactions, CDCC will determine and assign a Minimum Participation Requirement (“MPR”) to each Auction Participant, specifying their minimum required participation rate for the entire Default Auction Portfolio. A Portfolio Incentive Pool will also be assigned accordingly. Failure to meet the MPR will have an impact on the order of loss allocation (for more details, please refer to Appendices 2 and 3).

3.3.2 Portfolio Auction

The portfolio auction process is comprised of three main components:

- The divulgate~~disclosure~~ of the necessary information required by any Auction Participant to provide a bid;
- The procedure by which an Auction Participant must provide a bid; and
- The determination of the Prevailing Bidder.

a) Information provided

CDCC needs to provide sufficient information to all Auction Participants to enable them to submit a bid.

- The Corporation will provide all the relevant information for each Auction Portfolio, e.g. ISINs, prices, expiry dates/settlement dates, as applicable. The Corporation will also indicate if the portfolio has been hedged and will give the details on the hedges which form part of the Auction Portfolio.
- The Corporation will also inform each Eligible Clearing Member of the preliminary amount of its Clearing Fund Requirement allotted to each Auction Portfolio. This information is important to assess the potential amount at risk in case the costs associated with the close-out, auction or liquidation of this portfolio were to exceed the suspended Clearing Member’s resources and the CDCC Default Risk Capital.
- The relevant Minimum Participation Requirement (MPR), as applicable.
- Finally, the Corporation will also provide the detailed procedure by which an Auction Participant must provide a bid, as summarized in the sub-section below (bidding process).

b) Bidding process

- Auction Participants may bid on one or more Auction Portfolios and must submit their bids specifying the value of collateral they want to receive to assume the positions and the settlement of all the positions contained in each Auction Portfolio.
- For Default Auctions with respect to Proprietary Swap Transactions, Auction Participants must submit a price (the amount they are willing to pay or receive for a portfolio containing all positions in the Auction Portfolio) and a percentage of the Auction Portfolio, in accordance with their Minimum Participation Requirement (MPR).
- For SGC Securities Default Auctions, Auction Participants must submit bids by specifying a purchase price for each SGC Securities Auction Portfolio.

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- Per CDCC Rule A-210(3) Brokers participating in the SGC Securities Default Auction may be permitted (as outlined in the SGC Securities Default Auction invitation) to share Default Auction information including bidding files with Clients and submit bids on behalf of Clients. Clearing Members acting as brokers must maintain clarity of broker role versus the role of bidding for their own or an affiliate's account. Client bidding information must not be shared with personnel who bid on behalf of the Clearing Member's own or affiliate's account.
- The Corporation shall specify in the auction documentation the time limit for Auction Participants to submit their bids from the time of the distribution of the relevant information on the auctioned portfolio, the "Bidding Window". The Bidding Window shall be effor a minimum of two hours. No bids shall be accepted after the end of the Bidding Window.
- ~~The Corporation shall confidentially notify the prevailing bidder within 10 minutes of the closing of the Bidding Window.~~

c) Prevailing Bidder determination

- The Corporation will determine the winner of the auction for each Auction Portfolio on the basis of which Auction Participant has requested the least amount of collateral to accept all the positions associated with the Auction Portfolio. This does not apply to Default Auctions with respect to Proprietary Swap Transactions or SGC Securities Default Auctions.
- ~~For~~For Default Auctions with respect to Proprietary Swap Transactions, the Corporation will determine the winners of the auction for the Auction Portfolio on the basis of which of the Auction Participants have requested the least amount of collateral to accept positions associated with the Auction Portfolio in accordance with their bid prices and percentages. Please refer to Appendix 3 for detailed bidding categories.
- For the SGC Securities Default Auction, the Corporation will determine the winner for each Auction Portfolio on the basis of which Auction Participant has offered the highest purchase amount for all the SGC Securities associated with that SGC Securities Auction Portfolio.
- Notwithstanding the above, the Corporation has full discretion in accepting or rejecting a bid.
- The Corporation will notify the Auction Participant(s) that submitted the prevailing bid ~~(“(s) (each, a “Prevailing Bidder”)~~ that ~~its~~their bid has been retained. In the case of Default Auctions with respect to Proprietary Swap Transactions, the Corporation will also notify each Prevailing Bidder of the individual outcomes of their bids, as applicable.
- The Corporation shall confidentially notify the Prevailing Bidder within a reasonable time after the closing of the Bidding Window.

3.3.3 Post Auction Procedure

For Core Products: Upon notification, the Prevailing Bidder will be deemed beneficial owner of the applicable Auction Portfolio and hedges, and will become fully liable for ~~the auctioned~~such Auction Portfolio, including meeting any Core Margin requirements associated with ~~the auctioned~~such Auction Portfolio. The Core Margin requirement ~~impact~~impacts of the incremental positions contained in the ~~auctioned portfolio is~~Auction Portfolio are considered immediately, but the

amount agreed to be paid by the Corporation to the Prevailing Bidder in relation to ~~the~~such Auction Portfolio will be considered as collateral covering ~~this~~the applicable Core Margin requirement, as applicable. Any failure by the Prevailing Bidder to accept the transfer of positions or meet any obligations associated with the Auction Portfolio will be deemed a breach of obligations and such Clearing Member shall become liable for all fees, expenses and obligations incurred by the Corporation in connection with such Clearing Member's failure to honor its obligations. A failure by such Clearing Member to pay the costs and damages will automatically result in the determination by the Corporation of ~~a Non-Conforming status~~Non-Conforming Member status for such Prevailing Bidder. For greater certainty, the obligations described herewith apply to the Prevailing Bidder(s) of a Default Auction with respect to Proprietary Swap Transactions for their individual beneficial ownership of the Auction Portfolio.

For Proprietary Swap Transactions: On the following Swap Business Day after the completion of Default Auction, the Prevailing Bidder will be deemed beneficial owner of the applicable Auction Portfolio and hedges, and will become fully liable for such Auction Portfolio, including meeting any Swap Margin requirements associated with such Auction Portfolio. The Swap Margin requirement impacts of the incremental positions contained in the Auction Portfolio are considered next Swap Business Day. Any failure by the Prevailing Bidder to accept the transfer of positions or meet any obligations associated with the Auction Portfolio will be deemed a breach of obligations and such Clearing Member shall become liable for all fees, expenses and obligations incurred by the Corporation in connection with such Clearing Member's failure to honor its obligations.

The Corporation will also notify all Clearing Members of the successful completion, or failure, as the case may be, of the auction in addition to communicating to each Eligible Clearing Member the bidding category they fall into (e.g. Low-bidder or Non-bidder). ~~For SGC Securities Default Auction, the bidding category is not applicable as no Prefunded Financial Resources will be available for loss absorption.~~

In the case of Default Auctions, the Corporation will transfer all positions and associated collateral to the Prevailing Bidder no earlier than by the end of the next following Business Day or Swap Business Day, as applicable, and no later than the end of the second Business Day or Swap Business Day, as applicable, after the notification to the Prevailing Bidder.

3.3.4 Post SGC Securities Default Auction Procedure

Upon notification, the Prevailing Bidder will be required to create and execute purchase transactions for DVP settlement in CDS for the SGC Securities contained in the Auction Portfolio for which the Clearing Member was the Prevailing Bidder. Any failure by the Prevailing Bidder to complete any SGC Securities purchase transactions or meet any obligations associated with the SGC Securities Default Auction will be deemed a breach of obligations and such Clearing Member shall become liable for all fees, expenses and obligations incurred by the Corporation in connection with such Clearing Member's failure to honor its obligations. Prevailing bidder must initiate a trade for all SGC Securities purchase transactions with a Settlement Date as prescribed by CDCC in the SGC Default Auction instructions. Such Settlement Date will be no earlier than by the end of the next following Business Day and no later than the end of the second Business Day after the notification to the Prevailing Bidder.

The Corporation will also notify all Clearing Members of the successful completion, or failure, as the case may be, of the SGC Securities Default Auction. For an SGC Securities Default Auction, the bidding category is not applicable as no Prefunded Financial Resources will be available for loss absorption.

3.4 Portfolio Hedging

At any time during the Default Management Process, the Corporation may, if it deems appropriate, hedge the portfolio of the suspended Clearing Member in order to limit the accumulation of market and credit

losses. Note that in such cases, the Corporation may consider as hedges the use of instruments not part of the organization's clearing universe, including cash securities.

3.5 Liquidity Management

While not a source of capital available for the offset of losses, the Corporation has available an array of liquidity tools and facilities, which it may, at its discretion, call upon to assist with the funding of its loss mitigation activities. In the event of a default, the Corporation must make a determination as to how to deploy these resources:

- Drawing upon its commercial bank liquidity lines, in whole or in part.
- Using the Supplemental Liquidity Contributions held in the Core Tranche of the Supplemental Liquidity Fund and the Swap Tranche of the Supplemental Liquidity Fund, as applicable, in each case in whole or in part. The Supplemental Liquidity Fund shall not be used for loss allocation. Any usage by the Corporation of the Supplemental Liquidity Fund will be paid back as soon as practicable after a Default Management Period.
- Raising liquidity through outright sales and/or Repurchase Transactions involving Securities of the defaultingsuspended Clearing Member.
- Raising liquidity through the sale of non-~~Cad~~Canadian currencies pledged by the defaultingsuspended Clearing ~~member~~Members in respect of Core Products.
- Raising liquidity through the exercise of its rights of re-pledging/re-hypothecation of suspended Clearing Member's Margin Deposits (including without limitation Margin and Clearing Fund deposits).
- Raising liquidity through the exercise of its rights of re-pledging/re-hypothecation of surviving Clearing Members' Clearing Fund Requirements.
- The above liquidity management tools and facilities are not available for an SGC Securities Default Auction.

CDCC will first use the Core Tranche of the Supplemental Liquidity Fund to meet liquidity obligations in respect of Core Products and use the Swap Tranche of the Supplemental Liquidity Fund to meet liquidity obligations in respect of Proprietary Swap Transactions. The Corporation shall be authorized to use the Core Tranche of the Supplemental Liquidity Fund to meet liquidity obligations in respect of Proprietary Swap Transactions, and the Swap Tranche of the Supplemental Liquidity Fund to meet liquidity obligations in respect of Core Products, as applicable.

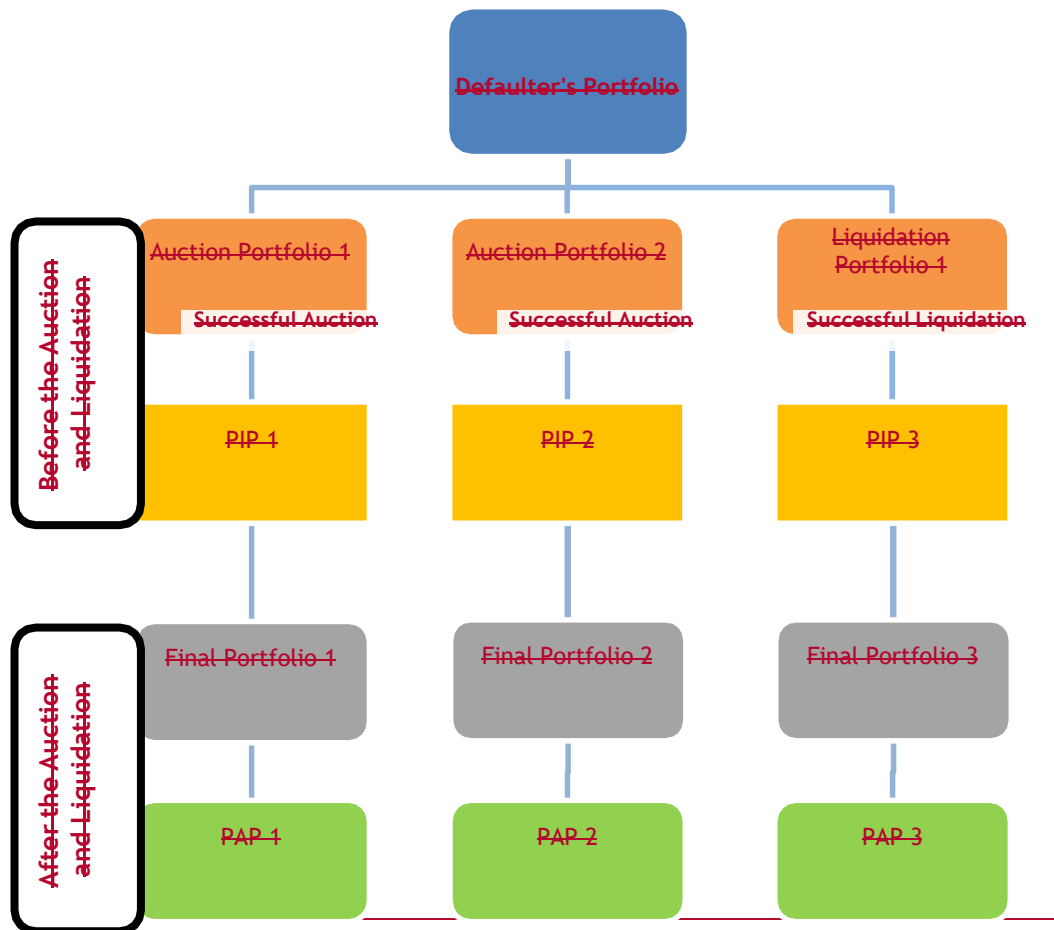
3.6 Loss Allocation Methodology

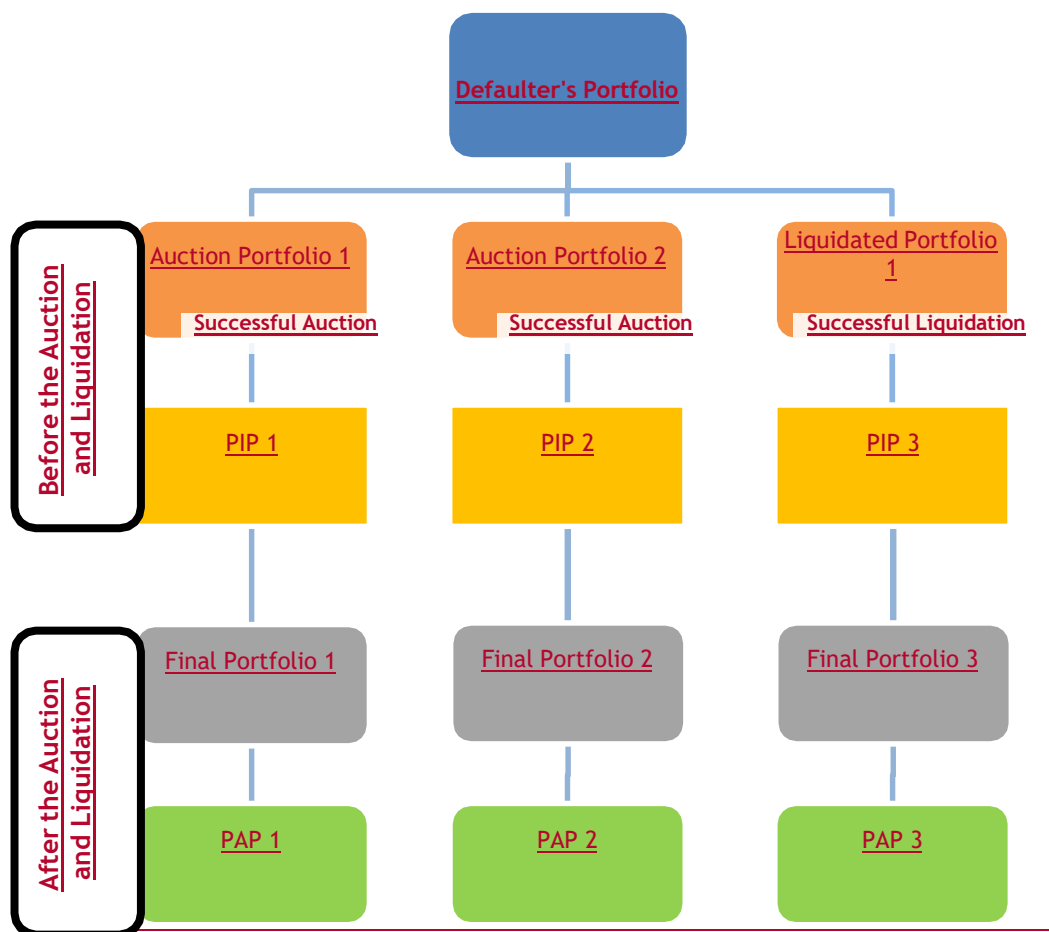
In implementing the Default Management Process, the Corporation will aim at minimizing the losses to the Corporation and its stakeholders.

- After the end of the Default Management Period, the Corporation will assess the total losses incurred or sustained by it. These losses include, but are not limited to, all default related obligations, costs or expenses incurred or sustained by the Corporation in connection with the administration, auction, closing-out, liquidation, hedging, financing or transfer of positions. Such calculation will be done separately for Core Products and Proprietary Swap Transactions.
- For each ~~auctioned~~Auction Portfolio or Liquidated Portfolio, the Corporation will allocate the financial resources contained in the Default Waterfall to the relevant Portfolio Allocation Pool ("PAP"). While the complete methodology is provided in ~~Appendix~~Appendices 2 and 3, the loss allocation methodology follows these principles:

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- The Corporation must extinguish the losses with the financial resources contained in the Default Waterfall in the order specified in Sub-section 1.6.
- In the event of a cross-default, the financial resources of CDCC's DRC shall be allocated between Core Products and Proprietary Swap Transactions, based on the proportion of each of Base Core Initial Margin and Base Swap Margin to the aggregate of Base Core Initial Margin and Base Swap Margin.
- The suspended Clearing Member's resources and the CDCC Default Risk Capital are allocated pro rata, based on the proportion of each ~~PAP's~~PAP's Base Core Initial Margin to the aggregate Base Core Initial Margin of all PAPs, or the Base Swap Margin to the aggregate Base Swap Margin of all PAPs, as applicable. Losses are then attributed to these resources. CDCC will first use suspended Clearing Member resources in respect of the Core Tranche of the Clearing Fund to cover the losses related to Core Products and the Clearing Member resources in respect of the Swap Tranche of the Clearing Fund to cover the losses related to Proprietary Swap Transactions. Any remaining excess suspended Clearing Member resources within the Core Tranche of the Clearing Fund will then be used to cover outstanding losses related to Proprietary Swap Transactions and any remaining excess suspended Clearing Member resources within the Swap Tranche of the Clearing Fund will then be used to cover outstanding losses related to Core Products.
- If any losses persist after the suspended Clearing Member's resources and CDCC Default Risk Capital have been fully exhausted, Clearing Fund contributions from surviving Clearing Members will be used to cover outstanding losses. CDCC will first use the Clearing Fund contributions in respect of Core Products to cover the outstanding losses related to Core Products and Clearing Fund contributions in respect of the Proprietary Swap Transactions to cover the outstanding losses related to Proprietary Swap Transactions. Any remaining excess Clearing Fund contributions within Core Products will then be used to cover outstanding losses related to Proprietary Swap Transaction and any remaining excess Clearing Fund contributions within Proprietary Swap Transactions will then be used to cover outstanding losses related to Core Products.
- The Clearing Fund Requirement of each surviving Clearing Member is allocated to each PAP in a two-steps process as explained in Appendix 2. Afterwards, losses are attributed to the Clearing Fund Requirements of surviving Clearing Members based on their bidding behavior in the Default Auction(s) (please refer to Appendix 3 - Bidding Incentives). If no auction was performed, the losses are attributed on a pro rata basis among the allocated Clearing Fund Requirements of the surviving Clearing Members to such PAP, in accordance with Appendix 2 - Loss Allocation Methodology.





- In the event that the Corporation is later able to recover from the suspended Clearing Member any amount, such amount shall be returned to the other Clearing Members to compensate for any amount charged to them and for the financial resources levied from them as part of the Default Management Process in the reverse order that these resources were used to cover the losses.
- The above loss allocation methodology is not applicable following an SGC Securities Default Auction. Once all the SGC Securities have been liquidated through the use of Default Auction and or broker sales, CDCC will transfer all the proceeds from such liquidation to the Trust's liquidation settlement account.

3.7 Impact of the Unsuccessful Application of Mitigation Tools

In the event that the Corporation has been unable to return to a matched book, or if the losses incurred in connection with the Default Management Process exceed the Default Waterfall, each of which is a Recovery Event, as (as defined in the Rules), the Corporation may then apply a set of Recovery Powers following the declaration by the Board of the initiation of the Recovery Process. The Recovery Process is described in Section A-10 of the Rules and in Section 4 below.

Section 4 : RECOVERY PLAN

The Default Management Process described above ensures that the Corporation has in place tools and processes to appropriately manage the risks following the default of a Clearing Member. Supplementing the Default Management Process, the Corporation has in place a recovery plan which provides for a defined set of actions to address any uncovered losses, liquidity shortfall or capital inadequacy, arising from the Clearing Member(s)' default(s) in the unlikely event that the Default Waterfall proves insufficient.

Rule A-10 governs the Corporation and Clearing Members' obligations in a Recovery Process. The section below provides for general information with respect to the triggers of the Recovery Process, a description of the Recovery Powers that may be used by the Corporation upon a declaration of Recovery Process, the governance supporting such process and the Recovery Loss⁶ allocation methodology.

4.1 Triggers for the Recovery Process

The ~~Corporation~~Corporation's management may recommend to the Board to trigger the implementation of the Recovery Process, after the suspension of a Non-Conforming Member, in either of the following situations:

- The Corporation, acting reasonably, determines that obligations, losses or expenses incurred or sustained by the Corporation as a result of, or in connection with, the suspension of one or more Clearing Members may exceed the resources available through the Default Waterfall; or
- After the exercise of the normal default management tools (powers contemplated in Rule A-4) or any rights or remedies provided under the Rules, the Corporation reasonably determines that it has been, or will likely be, unable to re-establish a matched book.

Some extreme financial stress could lead the Corporation to have insufficient resources as part of the Default Waterfall to absorb losses or settle expenses, payments or obligations in connection with the default of a Clearing Member. For example, the most favorable bid received in the course of a Default Auction may be significantly in excess of the Margin associated with the positions contained in an Auction Portfolio as a result of market uncertainty. Another illustration would be the case where the suspended Clearing Member's portfolio value may be negatively impacted by the occurrence of a market event with an impact that is greater than the market scenario that was planned for as part of the daily risk management activities. CDCC can also face ~~a~~ short-term liquidity pressure arising from an unexpectedly high settlement amount incurred by CDCC as a result of the suspended Clearing Member's Fixed Income Transactions.

In parallel, CDCC could also have sufficient financial resources but be unable to close ~~out~~ all the positions of the suspended Clearing Member following a series of failed Default Auctions in the absence of bids.

4.2 Recovery Powers

Upon the declaration by the Corporation of the commencement of a Recovery Process, CDCC may exercise extraordinary remedies against its Clearing Members in good standing to ensure that the Corporation continues to operate on an ongoing basis and to address uncovered losses or a liquidity shortfall. Such extraordinary remedies, referred to as Recovery Powers, are listed below and detailed in the Rules and can be applied in the manner set out in the applicable sections.

Recovery Powers aim at achieving two distinct objectives and can be classified as follows: 1) Recovery Powers which can extinguish uncovered losses or a liquidity shortfall, and 2) Recovery Powers which can re-establish a matched book.

4.2.1 Recovery Powers to Extinguish Uncovered Losses or a Liquidity Shortfall

The exercise by the Corporation of the Recovery Powers of this ~~Sub-section~~Subsection 4.2.1 is applicable to all Clearing Members, except SGC Clearing Members~~---~~.

⁶ Recovery Loss has the meaning given thereto in Section A-~~402~~1002 of the Rules.

4.2.1.1 Reduced Amounts Distribution

During a Default Management Period, after the commencement of the Recovery Process, the Corporation may withhold the payment of all or a portion of certain amounts (defined as the “Qualified Amounts” under the Rules) owed by the Corporation to the Clearing Members, a process referred therein as “Reduced Amounts Distribution” or “RAD”. As defined in the Rules, the Qualified Amounts include the payment of certain amounts in cash and/or the transfer of securities for Net Variation Margin Requirement purposes, pursuant to D-607 of the Rules and payment of Swap Net Settlement Amounts pursuant to D-815 of the Rules.

The purpose of the RAD is to withhold certain gains from Clearing Members to allow the Corporation to absorb certain losses. This tool aims at reducing liquidity pressure on Clearing Members while helping the Corporation extinguish losses.

- **Qualified Amounts**

Consistent with the purpose of this tool, the Qualified Amounts are payments or obligations and are specific to each asset class.

For Futures and Options, the Qualified Amounts are the net amount owed by the Corporation in respect of:

- 1) The net value of the Gains and Losses for that day in respect of all such Clearing Member’s Open Positions in Futures;
- 2) 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
- 3) 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.

For Fixed Income Transactions, the Qualified Amounts calculation is based on the following concepts:

- 1) For all Clearing Members, except the Limited Clearing Members, any decrease in Variation Margin Requirement since the last Business Day prior to the commencement of RAD will be subject to RAD for all Fixed Income Transactions still outstanding as of the day of the calculation.
- 2) For Limited Clearing Members, any decrease in Variation Margin Requirement since last Business Day prior to the commencement of RAD will be subject to RAD for the Fixed Income Transactions which were, before submission for clearing with the Corporation, originally entered into by the Limited Clearing Member and the suspended Clearing Member and which are still outstanding as of the day of the calculation.

For Proprietary Swap Transactions, the Qualified Amounts calculation is based on the following concepts:

- 1) The Swap Net Settlement Amount for that Swap Business Day in respect of all such Clearing Member’s Proprietary Swap Transactions.
- 2) The Swap Net Settlement Amount is calculated using CDCC’s Proprietary Swap Transactions pricing mode and Rule D-8.

The detailed Qualified Amounts methodology is described in ~~Sub-sections~~ Subsection A-1005(3) ~~b) and c)~~ of the Rules.

- **RAD Process**

The exercise of the Reduced Amounts Distribution by the Corporation requires that certain conditions be met:

- **Trigger:** If in the reasonable judgment of the Corporation, the Recovery Event may result in the Corporation incurring obligations, losses and expenses in an amount in excess of the resources available pursuant to the Default Waterfall;
- **Maximum Duration:** The Corporation may not exercise the RAD power for more than four (4) consecutive Business Days during a single Default Management Period and shall resume the payment of Qualified Amounts after the end of that period;
- **Permitted Use:** The Corporation will only use the Retained Amounts for satisfying or otherwise settling Recovery Losses⁷, after the exhaustion of the resources available pursuant to the Default Waterfall; and
- **Notice and Implementation:** The Corporation will communicate to all Clearing Members that RAD will be applied during the payment cycles. On each day of the Reduced Amounts Distribution Period, the Corporation will notify each Clearing Member of its relevant Retained Amount which will be withheld. The Corporation shall also communicate to all Clearing Members the end of the Reduced Amounts Distribution Period.

More information on the Reduced Amounts Distribution can be found in Section A-1005 of the Rules.

4.2.1.2 Recovery Loss Cash Payment

During a Default Management Period, subsequent to the commencement of the Recovery Process, the Corporation may require its Clearing Members, excluding Limited Clearing Members, to meet a Recovery Loss Cash Payment. The use of such tool is limited to certain conditions:

- **Trigger:** If, in the reasonable judgment of the Corporation, the Recovery Event may result in the Corporation incurring obligations, losses and expenses in an amount in excess ~~of the sum of~~ resources available pursuant to the Default Waterfall and the Retained Amounts and such amount is known or can reasonably be determined;
- **Maximum Amount:** The maximum aggregate amount which may be required from a Clearing Member during a single Default Management Period cannot exceed such Clearing Member's Clearing Fund Requirement as of the commencement of the Default Management Period and shall be determined separately in respect of the Core Tranche of the Clearing Fund and the Swap Tranche of the Clearing Fund;
- **Limited Use:** The Corporation will use the financial resources accumulated through Recovery Loss Cash Payments in respect of the Core Tranche of the

⁷ The Retained Amounts withheld on an LCM Fixed Income Transaction in relation to the suspension of a Clearing Member shall only be used to extinguish losses incurred in connection with such suspended Clearing Member.

Clearing Fund to extinguish any outstanding losses or obligations incurred by the Corporation in connection with the Recovery Event ~~after the exhaustion of the Default Waterfall and the resources retained as part of the RAD in respect of Core Products after the exhaustion of the resources available pursuant to the Default Waterfall and the resources retained as part of the RAD in respect of the Core Products.~~ The Corporation will use the financial resources accumulated through Recovery Loss Cash Payments in respect of the Swap Tranche of the Clearing Fund to extinguish any outstanding losses or obligations incurred by the Corporation in connection with the Recovery Event after the exhaustion of the resources available pursuant to the Default Waterfall in respect of Proprietary Swap Transactions and the resources retained as part of the RAD in respect of Proprietary Swap Transactions; and

- **Notice and Implementation:** The Corporation will communicate to each Clearing Member the proportional amount, if any, that such Clearing Member must pay in respect of (i) Core Products, and (ii) Proprietary Swap Transactions at the next Settlement Time.

The Recovery Powers form part of the rights and remedies that may be exercised by the Corporation pursuant to a declaration of the commencement of a Recovery Process, therefore a failure to pay by a Clearing Member its Recovery Loss Cash Payment is a ground for ~~the~~ Non-Conforming Member status and may lead to the suspension of such Clearing Member.

More information on the Recovery Loss Cash Payment can be found in Section A-1006 of the Rules.

4.2.2 Recovery Tools to Re-Establish a Matched Book

All Recovery Powers ~~of~~in this section are based on Clearing Members' voluntary participation.

4.2.2.1 Recovery Auction

At any point in time during the Recovery Process, the Corporation may choose to hold one (or several) Recovery Auction(s) as a means to re-establish a matched book following the suspension of a Clearing Member. The Recovery Auction(s) only relates to the suspended Clearing Member's Fixed Income Transactions, and Proprietary Swap Transactions. The Recovery Auction relies on the same participation and bidding rules and principles governing the Default Auction as set out in Sub-section 3.3. However, the Recovery Auction does not take into consideration bidding behavior to determine the impact on the loss allocation methodology. The complete loss allocation methodology is detailed in Appendix 2.

More information on the Recovery Auction can be found in Section A-1007 of the Rules.

4.2.2.2 Voluntary Contract Tear-Up

In order to return to a matched book, the Corporation may also ask the surviving Clearing Members to agree, on a voluntary basis, to tear-up outstanding positions. The purpose of a Voluntary Contract Tear-Up is to close ~~out~~ the remaining positions of the suspended Clearing ~~Member's positions~~Member by terminating simultaneously the offsetting positions held by the surviving Clearing Members. The use of such tool is limited to certain conditions:

- **Trigger:** Voluntary Contract Tear-Up will only be used after declaration of a Recovery Process and if the Corporation determines that it has been unable to

transfer, close -out, or liquidate all the positions of the suspended Clearing Member with the standard default management tools as described in Rule A-4 or Section 3 of this Manual. ~~Moreover,~~ For Fixed Income Transactions and Proprietary Swap Transactions, the Voluntary Contract Tear-Up can only be offered following the holding of a Recovery Auction.

- **Notice and Implementation:** The Corporation will notify Clearing Members in advance of its intention to implement Voluntary Contract Tear-Up. At the Close of Business, the Corporation will communicate to each Clearing Member the suggested proportion of its Open Positions, including Proprietary Swap Transactions, which could be torn-up along with the Tear-Up Value of such Open Positions. This notification will occur after the notification to the Clearing Members regarding ~~the~~ Retained Amounts if applicable.
- For each Clearing Member, the suggested proportion to be torn-up is calculated by allocating the suspended Clearing Member's Open Positions pro rata, based on the proportion of the Clearing ~~Member's~~ Member's opposite net Open Positions to the opposite net Open Positions of all surviving Clearing Members. For a Proprietary Swap Transaction, the suspended Clearing Member's Proprietary Swap Transactions can only be torn-up with the original counterparty of the Bilateral Swap Transaction.
- The Tear-Up Value of Open Positions will be determined at the prevailing end-of-day market price as explained in ~~Sub-section~~ Subsection A-1008(4) of the Rules.

▪ **Implementation Impact for Fixed Income Transactions**

For a Fixed Income Transaction, the impact of tearing-up is the following:

- At the date of the Voluntary Contract Tear-Up, any Variation Margin that is owed by the surviving Clearing Member to CDCC will become payable in accordance with the ordinary Variation Margin Settlement Time and any Variation Margin owed by CDCC to the surviving Clearing Member which is not otherwise subject to a Reduced Amount Distribution will become due in accordance with the ordinary Variation Margin Settlement Time.

For further clarity, where the Corporation concurrently exercises its RAD power ~~under the RAD on in~~ respect of a Fixed Income Transaction that is also subject to Voluntary Contract Tear-Up, the interaction between the Retained Amount and the amount payable following the Voluntary Contract Tear-Up of a Fixed Income Transaction is as follows:

- If at the date of the Voluntary Contract Tear-Up, for each Fixed Income Transaction to be torn-up, the associated Retained Amount is notified to the Clearing Member, the net amount payable by CDCC for such Fixed Income Transaction will be equal to the Variation Margin owed by CDCC to the surviving Clearing Member less the Retained Amount.
- Any future outstanding payment or delivery obligations in respect of all the Fixed Income Transactions which a Clearing Member has consented to terminate will be terminated. This implies that upon termination, any Coupon Income owed by the Corporation to a surviving Clearing Member will not be distributed. It also means that the Repo Party that sold the Purchased Securities and received the Purchase Price in the Open Leg, will not receive the Purchased Securities and will not pay the Repurchase Price in the Close Leg. Similarly, the Reverse Repo Party that bought the Purchased Securities in the Open Leg and paid the Purchase Price, will not deliver the Purchased Securities and will not receive the Repurchase Price in the Close Leg. Equally, the Buyer who initially agreed to pay the Purchase Price will not receive the Purchased Securities and the Seller will retain the Purchased Securities and will not receive the Purchase Price.

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- Any securities pledged to a Clearing Member in respect of a Variation Margin Requirement in connection with the torn-up Fixed Income Transactions, in possession of ~~either party~~such Clearing Member prior to the date of the Voluntary Contract Tear-Up, shall remain the possession of such ~~party~~Clearing Member.
- Any Core Initial Margin pledged in support of the torn-up Transactions by the non-defaulting Clearing Member shall become excess Margin and be retrievable by such Clearing Member after the date of the Voluntary Contract Tear-Up.

Implementation Impact for Options and Futures Contracts

- At the date of the Voluntary Contract Tear-Up, any ~~net~~Settlement of Gains and Losses on Futures or Option Premium that is owed by the non-defaulting Clearing Member to CDCC will become payable in accordance with the ordinary Settlement Time and any Variation Margin or Option Premium owed by CDCC to the surviving Clearing Member which is not otherwise subject to Reduced Amount Distribution will become due in accordance with the ordinary Settlement Time.
- Any Core Initial Margin pledged in support of Futures or Options positions by the non-defaulting Clearing Member shall become excess Margin and be retrievable by such Clearing Member after the date of the Voluntary Contract Tear-Up.
- The Corporation shall terminate any future outstanding payment or delivery obligations in respect of all Futures and Options positions which a Clearing Member has consented to terminate. In other terms, from the moment the contract is terminated, the positions cease to exist and no exercise or assignment could be performed.

Implementation Impact for Proprietary Swap Transactions

- At the date of the Voluntary Contract Tear-Up, any Swap Net Settlement Amount that is owed by the non-defaulting Clearing Member to CDCC will become payable in accordance with the ordinary Settlement Time and any Swap Net Settlement Amount owed by CDCC to the surviving Clearing Member which is not otherwise subject to Reduced Amount Distribution will become due in accordance with the Proprietary Swap Transactions Settlement Time.
- Any Swap Margin pledged in support of Proprietary Swap Transaction positions by the non-defaulting Clearing Member shall become excess Margin and be retrievable by such Clearing Member after the date of the Voluntary Contract Tear-Up.
- The Corporation shall terminate any future outstanding payment obligations in respect of all Proprietary Swap Transaction positions which a Clearing Member that was the original counterparty of the related Bilateral Swap Transaction(s) has consented to terminate. In other terms, from the moment the contract is terminated, the positions cease to exist.

More information on the Voluntary Contract Tear-Up can be found in Section A-1008 of the Rules.

4.3 Liquidity Management

Without limiting the options provided in ~~Sub-section~~Subsection 3.5 of this Manual, such options being also available to the Corporation in a Recovery Process, in managing its liquidity, the Corporation can use, after the financial resources of the Default Waterfall, the available financial resources levied through the exercise of its Recovery Powers such as the Reduced Amounts Distribution and the Recovery Loss Cash Payment for temporary liquidity funding. Indeed, these recovery tools can be similarly used in accordance with the Rules for either (1) credit purposes to cover any market-driven losses related to a default, or (2) liquidity purposes to cover any liquidity-driven obligation related to the liquidation of the suspended Clearing Member's

collateral and positions. Such resources shall be applied in respect of Core Products and Proprietary Swap Transactions in accordance with the rules otherwise applicable thereto.

4.4 Recovery Governance

Following the declaration by the Corporation, and as approved by the Board, of the commencement of a Recovery Process (see ~~Sub-section~~ Subsection 4.1), the Board shall delegate to CDCC's management the authority to make any reasonable decision regarding the timing and use of Recovery Powers to address uncovered losses or a liquidity shortfall caused by Clearing Member(s)' default(s) and re-establish a matched book, in accordance with the powers entrusted to the Corporation in the Rules. The decision-making respecting the application of recovery tools is a natural extension of the existing Default Management Process. As such, the governance in place for the Default Management Process and set out under Section 2 of this Manual will be extended for the Recovery Process. The Default Management And Recovery Committee will be responsible to make decisions related to the application of the Recovery Powers with the support of the Emergency Committee.

▪ Notifications

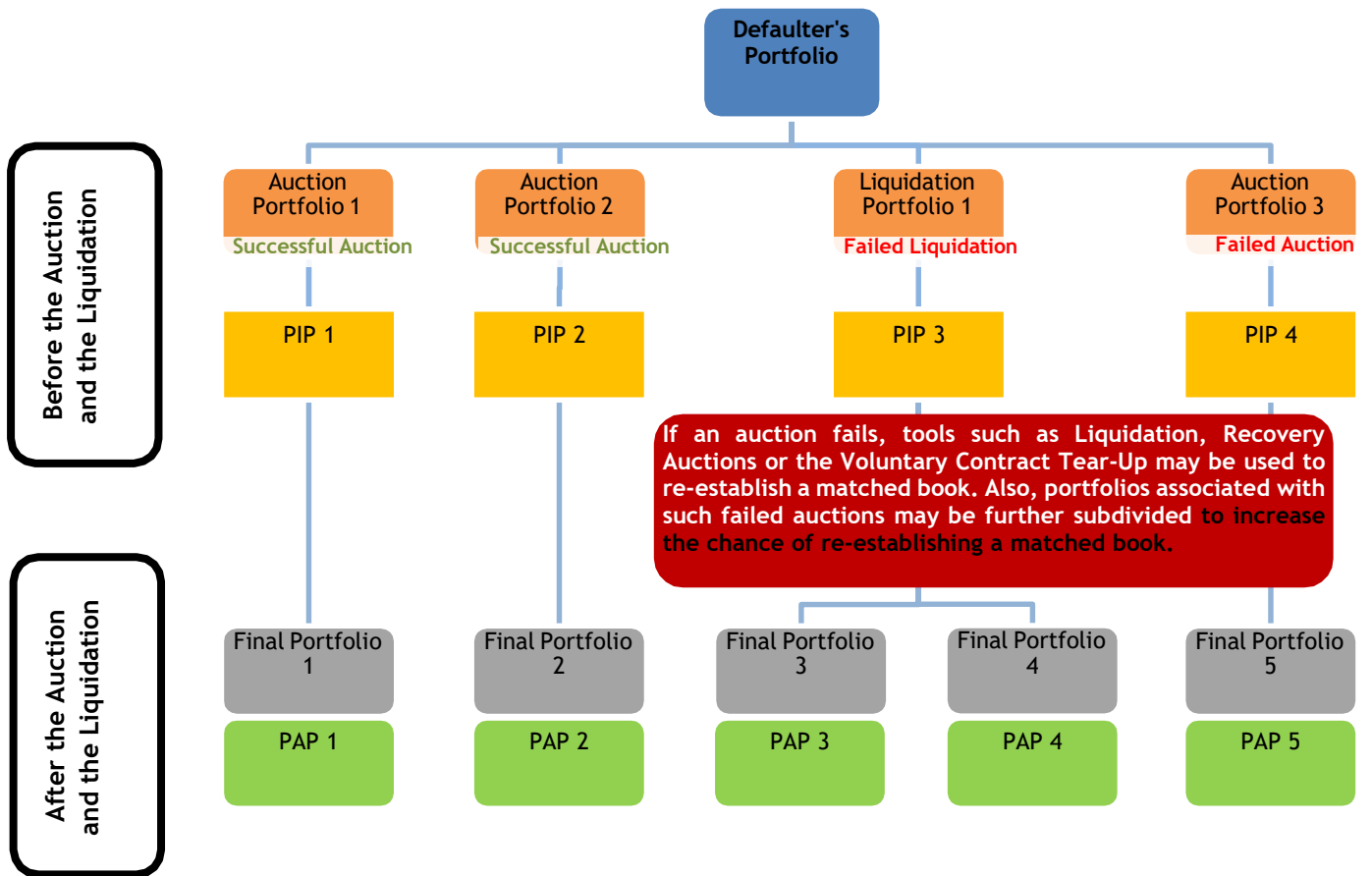
Upon the declaration of a Recovery Process, the Corporation will notify all Clearing Members, the Exchange applicable Exchanges, all regulatory organizations or agencies having oversight of the Corporation, the Bank of Canada and any such other Entities that the Corporation considers appropriate.

As it is the case while the Corporation is managing a default pre-Recovery Process, appropriate and timely communication will be maintained between CDCC, the Board, its Risk Management Advisory Committee and its regulators.

4.5 Recovery Loss Allocation Methodology

The Corporation's capacity to absorb losses increases with the addition of the Recovery Powers. The loss allocation methodology that starts with the application of the available resources of the Default Waterfall, as described in Sub-section 1.6, is supplemented by any financial resources levied by arising from the Reduced Amounts Distribution and then the Recovery Loss Cash Payment Payments. However, in extinguishing default-related losses, CDCC must use the financial resources in the prescribed order, as described in Appendix 2.

In the event that the Corporation is later able to recover from the suspended Clearing Member any amount, such amount shall be returned to the other Clearing Members to compensate for any amount charged to them and for the financial resources levied from them as part of the Recovery Process in the reverse order that these were used to cover the Recovery Losses.



Appendix 1: Allotment of Prefunded Financial Resources to Portfolio Incentives Pools (“PIPs”)

Before conducting an auction, the Corporation will calculate and allot, on a preliminary basis, the Prefunded Financial Resources to each Portfolio Incentive Pool (“PIP”) related to each Auction Portfolio or ~~Liquidated~~Liquidation Portfolio.

A ~~Portfolio Incentive Pool (“PIP”)~~ represents a pool of financial resources allotted by CDCC to one specific portfolio to be auctioned or liquidated.

This step will allow CDCC to:

- Estimate the amount of Prefunded Financial Resources available to extinguish losses for each portfolio; and
- Inform each Eligible Clearing Member of the portion of its Clearing Fund Requirement attributed to each Auction Portfolio which could be at risk of being used to extinguish losses.

The Prefunded Financial Resources will be preliminarily allotted to each PIP, based on the proportion of the Base Initial Margin of each portfolio of the suspended Clearing Member to the aggregate Base Initial Margin of all portfolios of the suspended Clearing Member. The allotment methodology for each ~~tranche of~~ Prefunded Financial Resources with respect to Core Products and Proprietary Swap Transactions is described below:

I. Suspended Clearing Member’s resources

The suspended Clearing Member’s resources shall be allotted to each PIP pro rata, based on the proportion of the Base Core Initial Margin or Base Swap Margin of such PIP to the aggregate Base Core Initial Margin or Base Swap Margin, as applicable, of all PIPs in respect of Core Products or Proprietary Swap Transactions, as applicable.

II. CDCC Default Risk Capital (“DRC”)

~~CDCC DRC’s~~The financial resources of CDCC’s DRC shall be ~~allotted to each PIP pro rata, based on allocated between Core Products and Proprietary Swap Transactions based on~~ the proportion of ~~the each of~~ Base Core Initial Margin and Base Swap Margin to the aggregate of Base Core Initial Margin and Base Swap Margin. In the case of a cross default, they shall be allocated to each PIP pro rata, based on (i) the proportion of the aggregate Base Core Initial Margin to the aggregate Base Swap Margin, and (ii) the proportion of the Base Core Initial Margin or Base Swap Margin of such PIP to the aggregate Base Core Initial Margin or Base Swap Margin, as applicable, of all PIPs in respect of Core Products or Proprietary Swap Transactions, as applicable.

III. Surviving Clearing Members Clearing Fund Requirements

As a first step, the Corporation shall calculate the proportion of each surviving Clearing Member’s Clearing Fund Requirement attributed to each asset class, based on the proportion of each Clearing Member’s applicable Base Initial Margin for such asset class to the aggregate Base Core Initial Margin or Base Swap Margin, as applicable, of such Clearing Member.

In a second step, for each asset class, the Corporation shall further sub-divide the amount of Clearing Fund Requirement obtained in the first step above, pro rata, based on the proportion of each PIP’s Base Initial Margin to the aggregate Base Initial Margin of all PIPs of that asset class.

Appendix 2: Loss Allocation Methodology

This appendix describes how the Corporation will allocate losses amongst Clearing Members and CDCC, or, in other words, what resources will be used to extinguish losses. As outlined in ~~Sub-sections~~Subsections 1 and 2 below, the loss allocation methodology differs depending on the type of financial resources used to extinguish losses, e.g. CDCC Default Risk Capital, Clearing Fund Requirements, etc.

This loss allocation process can only be done after the end of the Default Management Period, when losses are known. These losses include all default related obligations, costs or expenses, incurred or sustained by the Corporation in connection with the administration, auction, closing-out, liquidation, hedging, financing or transfer of positions or collateral, provided that such losses shall be determined separately in respect of Core Products and Proprietary Swap Transactions.

The final loss allocation process does not take into account the preliminary allotment of financial resources and PIP as described in Appendix 1, which is performed for information purposes only.

The loss allocation methodology is based on the four following steps:

1. Determination the composition of each Final Portfolio
 2. Creation of the Portfolio Allocation Pools (“PAPs”)
 3. Determination of the amount of losses for each PAP
 4. Allocation of financial resources to each PAP
- I. **Determination of the composition of each Final Portfolio**

The Corporation shall first group together a suspended Clearing ~~Member's~~Member's positions which have been closed-out together, whether as an ~~auctioned~~Auction Portfolio, a Liquidated Portfolio or a group of torn-up positions (each, a “Final Portfolio”).

The Final Portfolio shall only be composed of eligible positions of three distinct portfolios for the suspended Clearing Member (Firm, GCM Regime and Non-GCM Regime) and of the same asset class, except for any positions from other asset classes which have been added by CDCC for hedging ~~purposes,~~purpose. For Proprietary Swap Transactions, the Final Portfolio shall only be composed of Firm positions.

- II. **Creation of ~~the Portfolio Allocation Pools (PAPs)~~a PAP**

For each Final Portfolio, a Portfolio Allocation Pool shall be created. A ~~Portfolio Allocation Pool (“PAP”)~~ represents, in relation to a Final Portfolio, a pool of losses that arose in connection with such Final Portfolio and financial resources (allocated by the Corporation) to extinguish such losses.

- III. **Determination of the losses associated with each PAP**

For each PAP, the Corporation shall determine what are the losses related to the Final Portfolio, based on the specific losses, expenses and obligations associated with the Default Management Process of such Final Portfolio. For example, for a specific Auction Portfolio which has been successfully auctioned, the direct cost of the auction shall be attributed to its PAP, i.e. the bid amount.

Costs that are generated in the Default Management Process of multiple Final Portfolios and shared between them, should be proportionally allocated to PAPs related to these Final Portfolios.

- IV. **Allocation of financial resources to each PAP**

Once all losses are allocated to all PAPs, the next step is to allocate financial resources to these PAPs to extinguish the losses in a pre-established manner. The sub-sections below provide the detailed methodology to allocate financial resources to each PAP.

1. Default Waterfall Resources

In each PAP, the Corporation will allocate the financial resources contained in the Default Waterfall in the following order:

a) Suspended Clearing Member's resources

Step 1. The Corporation shall allocate the suspended Clearing Member's resources to each PAP pro rata, based on the proportion of the PAP's Base Core Initial Margin to the aggregate Base Core Initial Margin of all PAPs in respect of Core Products or the proportion of the PAPs Base Swap Margin to the aggregate Base Swap Margin of all PAPs in respect of Proprietary Swap Transactions, as applicable.

Step 2. In each PAP, the Corporation shall extinguish the losses with the allocated suspended Clearing Member's resources.

Step 3. For each asset class, if there remains a loss in a PAP after the allocation of the suspended Clearing Member's resources, while there is still an excess of resources in other PAPs, the Corporation will use such excess to extinguish the outstanding losses. This will be performed by allocating the aggregate excess resources of the suspended Clearing Member pro rata, based on the proportion of (1) the Base Initial Margin of each PAP where the allocated suspended Clearing Member's resources have proven insufficient to cover their respective losses, to (2) the aggregate Base Initial Margin of all PAPs of that asset class where the allocated suspended Clearing Member's resources have proven insufficient to cover their respective losses.

Step 4. Across all asset classes, if there remains a loss in a PAP after the allocation of the suspended Clearing Member's resources, while there is still an excess of resources in other PAPs, the Corporation will use such excess to extinguish the outstanding losses. This will be performed by allocating the aggregate excess resources of the suspended Clearing Member's pro rata, based on the proportion of (1) the Base Initial Margin of each PAP where the allocated suspended Clearing Member's resources have proven insufficient to cover their respective losses, to (2) the aggregate Base Initial Margin of all PAPs, across all asset classes, where the allocated suspended Clearing Member's resources have proven insufficient to cover their respective losses.

Suspended Clearing Member's resources should be fully exhausted across all PAPs and all asset classes before applying CDCC Default Risk Capital to cover losses as described below. If the suspended Clearing Member's resources have proven sufficient to CDCC DRC extinguish all the outstanding losses, the loss allocation mechanism is deemed completed.

CDCC will first use suspended Clearing Member resources of Core Products or Proprietary Swap Transactions, as applicable, to cover the losses related to Core Products or Proprietary Swap Transactions, as applicable. Any remaining excess suspended Clearing Member resources within Core Products will then be used to cover outstanding losses related to Proprietary Swap Transactions and any remaining excess suspended Clearing Member resources within Proprietary Swap Transactions will then be used to cover outstanding losses related to Core Products.

b) CDCC DRC

Step 1. In the case of cross default, CDCC shall allocate CDCC DRC to each between Core Products and Proprietary Swap Transactions based on the proportion of each of Base Core Margin and Base Swap Margin to the aggregate of Base Core Initial

Margin and Base Swap Margin. CDCC shall further allocate the financial resources of CDCC's DRC within Core Products and Proprietary Swap Transactions to each respective PAP pro rata, based on the proportion of such PAP's Base Core Initial Margin or Base Swap Margin to the aggregate Base Core Initial Margin or Base Swap Initial Margin of all PAPs.

- Step 2. In each PAP, the Corporation shall extinguish the loss with the allocated CDCC DRC.
- Step 3. For each asset class, if there remains a loss in a PAP after the allocation of CDCC DRC, while there is still an excess of resources in other PAPs, the Corporation will use such excess to extinguish the outstanding losses. This will be performed by allocating the aggregate excess resources of CDCC DRC pro rata, based on the proportion of (1) the Base Initial Margin of each PAP where the allocated CDCC DRC has proven insufficient to cover their respective losses, to (2) the aggregate Base Initial Margin of all PAPs of that asset class where the allocated CDCC DRC has proven insufficient to cover their respective losses.
- Step 4. Across all asset classes, if there remains a loss in a PAP after the allocation of CDCC DRC, while there is still an excess of resources in other PAPs, the Corporation will use such excess to extinguish the outstanding losses. This will be performed by allocating the aggregate excess CDCC DRC pro rata, based on the proportion of (1) the Base Initial Margin of each PAP where the CDCC DRC has proven insufficient to cover their respective losses, to (2) the aggregate Base Initial Margin of all PAPs, across all asset classes, where the allocated CDCC DRC has proven insufficient to cover their respective losses.

CDCC DRC should be fully exhausted across all PAPs and all asset classes before allocating the surviving Clearing Members' Clearing Fund Requirements to cover losses as described below. If the CDCC DRC has proven sufficient to extinguish all the outstanding losses, the loss allocation mechanism is deemed completed.

c) **Surviving Clearing Members' Clearing Fund Requirements**

Step 1. Initial Allocation

Sub-Step 1. CDCC shall allocate the surviving Clearing Members' Clearing Fund Requirements to each PAP for Core Products and Proprietary Swap Transaction in the following manner:

- As a first step, the Corporation shall calculate the portion of each surviving Clearing Member's Clearing Fund Requirement attributed to each asset class pro rata, based on the proportion of each Clearing Member's Base Initial Margin for such asset class relative to the aggregate Base Initial Margin of such Clearing Member; and
- In a second step, for each asset class, the Corporation shall further sub-divide the amount of Clearing Fund Requirement obtained in the first step above, pro rata, based on the proportion of each PAP's Base Initial Margin on the aggregate Base Initial Margin of all PAPs of that asset class.

Sub-Step 2. In each PAP, CDCC will extinguish the outstanding losses pro rata, based on the proportion of (1) each Clearing ~~Member's-allocated~~ Member's Clearing Fund Requirement allocated to such PAP, to (2) the aggregate Clearing Fund Requirements of all Clearing Members

allocated to such PAP, with the use of allocated surviving Clearing Members' Clearing Fund Requirements calculated in Sub-Step 1.

- However, for PAPs related to Final Portfolios that were successfully auctioned, the loss allocation shall be subject to the subordination of each surviving Clearing ~~Member's~~Member's Clearing Fund Requirement based on such Clearing ~~Member's~~Member's bidding behavior in the PAPs where the loss is absorbed (please refer to Appendix 3- Bidding Incentives).

Step 2. Intra-Class Allocation

Sub-Step 1. For each asset class, if there remains a loss in a PAP after the allocation of the surviving Clearing Members' Clearing Fund Requirements, while there is still an excess of resources in other PAPs, such outstanding losses will be extinguished by these excess surviving Clearing Members' Clearing Fund Requirements. This will be performed by allocating, for each Clearing Member its aggregated excess Clearing Fund Requirements pro rata, based on the proportion of (1) the Base Initial Margin of each PAP in such asset class where the allocated surviving Clearing Members' Clearing Fund Requirements have proven insufficient to cover their respective losses, to (2) the aggregate Base Initial Margin of all PAPs of that asset class where the allocated surviving Clearing Members' Clearing Fund Requirements have proven insufficient to cover their respective losses.

Sub-Step 2. In each PAP, CDCC will extinguish the outstanding losses pro rata of (1) each Clearing Member ~~allocated~~—excess Clearing Fund Requirement allocated to such PAP, on (2) the aggregate allocated excess Clearing Fund Requirements of all Clearing Members allocated to such PAP, with the allocated excess surviving Clearing Members' Clearing Fund Requirements calculated in Sub-Step 1.

- However, for PAPs related to Final Portfolios that were successfully auctioned, the loss allocation shall be subject to the subordination of each surviving Clearing ~~Member's~~Member's Clearing Fund Requirement based on such Clearing ~~Member's~~Member's bidding behavior in the PAPs where the loss is absorbed (please refer to Appendix 3- Bidding Incentives).

Step 3. Inter-Class Allocation

Sub-Step 1. Across all asset classes, if there remains a loss in a PAP after the allocation of the surviving Clearing Members' Clearing Fund Requirements, while there is still an excess of resources in other PAPs, those outstanding losses will be extinguished by these excess surviving Clearing Members' Clearing Fund Requirements. This will be performed by allocating, for each Clearing Member, its aggregated excess Clearing Fund Requirements pro rata, based on the proportion of (1) the Base Initial Margin of each PAP where the allocated surviving Clearing Members' Clearing Fund Requirements have proven insufficient to cover their respective losses, to (2) the aggregate Base Initial Margin of all PAPs, across all asset classes, where the allocated surviving Clearing Members' Clearing Fund Requirements have proven insufficient to cover their respective losses.

Default Manual

Sub-Step 2. In each PAP, CDCC will extinguish the outstanding losses pro rata of (1) each Clearing Member allocated excess Clearing Fund Requirement to such PAP, on (2) the aggregate allocated excess Clearing Fund Requirements of all Clearing Members to such PAP with the allocated excess surviving Clearing Members' Clearing Fund Requirements calculated in Sub-Step 1.

- Surviving Clearing Members' Clearing Fund Requirements should be fully exhausted across all PAPs and all asset classes before allocating the 2nd surviving Clearing Members' Clearing Fund Requirements to cover losses as described below. ~~If the suspended Clearing Member's resources have proven sufficient to extinguish all the outstanding losses, the loss allocation mechanism is deemed completed.~~
- ~~The surviving Clearing Members' Clearing Fund Requirements of all Clearing Members should be fully exhausted across all PAPs and all asset classes before allocating the 2nd surviving Clearing Members' Clearing Fund Requirements to cover losses as described below.~~ If the surviving Clearing Members' Clearing Fund Requirements have proven sufficient to extinguish all the outstanding losses, the loss allocation mechanism is deemed completed.

d) 2nd surviving Clearing Members' Clearing Fund Requirements

The methodology for allocating the 2nd surviving Clearing Members' Clearing Fund Requirements to each PAP shall follow the same allocation methodology used for the allocation of the surviving Clearing Members' Clearing Fund Requirements and described in the previous Section 1(c).

e) Loss Allocation across Services

CDCC will first use the surviving Clearing Members' Clearing Fund contributions, in respect of Core Products, to cover outstanding losses in respect of Core Products and surviving Clearing Members' Clearing Fund contributions, in respect of Proprietary Swap Transactions, to cover outstanding losses in respect of Proprietary Swap Transaction. Any remaining excess Clearing Fund contributions within will then be used to cover outstanding losses related to Proprietary Swap Transactions or Core Products, as applicable.

2. Recovery Power Resources

In the event that a Recovery Process has been declared by CDCC and that Recovery Powers are used to extinguish uncovered losses, the loss allocation methodology provides for the usage of financial resources levied by the RAD and the Recovery Loss Cash Payment after the application of the Default Waterfall.

a) Retained Amounts

Step 1. Initial Allocation

Sub-Step 1. CDCC shall allocate the sum of Retained Amounts to each PAP, in the following manner:

- As a first step, the Corporation shall calculate the portion of each surviving Clearing Member's Retained Amounts attributed to each asset class, based on the proportion of each Clearing Member's Base Initial Margin for such asset class to the aggregate Base Core Initial Margin or Base Swap Margin, as applicable, of such Clearing Member; and

- In a second step, for each asset class, the Corporation shall further sub-divide each Clearing Member Retained Amounts obtained in the first step above pro rata, based on the proportion of ~~each PAP's~~the Base Initial Margin for each PAP in that asset class to the aggregate Base Initial Margin of all PAPs of that asset class. Provided however that, in the case of the suspension of more than one Clearing Member, ~~any~~ LCM Retained Amounts withheld in connection with the suspension of one Clearing Member shall only be allocated to PAPs in relation to the same suspended Clearing Member.

Sub-Step 2. In each PAP, CDCC will extinguish the outstanding losses pro rata, based on the proportion of (1) each Clearing ~~Member's allocated~~ Member's Retained Amounts allocated to such PAP, to (2) the aggregate Retained Amounts of all Clearing Members allocated to such PAP, with the use of the allocated Retained Amounts calculated in Sub-Step 1.

Step 2. Intra-Class Allocation

Sub-Step 1. For each asset class, if there remains a loss in a PAP after the allocation of the Retained Amounts, while there is still an excess of resources in other PAPs, such outstanding losses will be extinguished by these excess Retained Amounts. This will be performed by allocating, for each Clearing Member, its aggregated excess Retained Amounts pro rata, based on the proportion of (1) the Base Initial Margin of each PAP where the allocated Retained Amounts have proven insufficient to cover their respective losses, to (2) the aggregate Base Initial Margin of all PAPs of that asset class where the allocated Retained Amounts have proven insufficient to cover their respective losses.

Sub-Step 2. In each PAP, CDCC will extinguish the outstanding losses pro rata of (1) each Clearing ~~Member's allocated~~ Member's excess Retained Amounts allocated to such PAP, on (2) the aggregate excess Retained Amounts of all Clearing Members allocated to such PAP, with the use of the allocated excess Retained Amounts calculated in Sub-Step 1. Provided however that, in the case of the suspension of more than one Clearing Member, ~~any~~ LCM Retained Amounts withheld in connection with the suspension of one Clearing Member shall only be allocated to PAPs in relation to the same suspended Clearing Member.

Step 3. Inter-Class Allocation

Sub-Step 1. Across all asset classes, if there remains a loss in a PAP after the allocation of the Retained Amounts, while there is still an excess of resources in other PAPs, those outstanding losses will be extinguished by these excess Retained Amounts. This will be performed by allocating, for each Clearing Member, its aggregated excess Retained Amounts pro rata, based on the proportion of (1) the Base Initial Margin of each PAP where the allocated Retained Amounts have proven insufficient to cover their respective losses, to (2) the aggregate Base Initial Margin of all PAPs, across all asset classes, where the allocated Retained Amounts have proven insufficient to cover their respective losses. Provided however that, in the case of the suspension of more than one Clearing Member, ~~any~~ LCM Retained Amounts withheld in connection with the

suspension of one Clearing Member shall only be allocated to PAPs in relation to the same suspended Clearing Member.

For further clarity, the Inter-Class Allocation methodology permits the use of any Retained Amounts levied from any Clearing Member, without regard to the asset class that such Clearing Member's membership covers, to be used to absorb losses stemming from any PAP in any asset class. This implies that Retained Amounts levied from ~~any~~ LCM or another Fixed Income Clearing Member may be allocated to PAPs of Futures or Options asset classes.

Sub-Step 2. In each PAP, CDCC will extinguish the outstanding losses on pro rata of (1) each Clearing Member allocated excess Retained Amounts to such PAP, on (2) the aggregate excess Retained Amounts of all Clearing Members to such PAP, with the use of the allocated excess Retained Amounts calculated in Sub-Step 1.

- Subject to the requirement that LCM Retained Amounts in connection with the suspension of one Clearing Member be used only to absorb losses incurred by the Corporation in relation to the same suspended Clearing Member, in the case of the suspension of more than one Clearing Member, Retained Amounts should be fully exhausted across all PAPs and all asset classes before allocating the Recovery Loss Cash Payment to cover losses as described below. If the Retained Amounts have proven sufficient to extinguish all the outstanding losses, the loss allocation mechanism is deemed completed.

Step 4. Loss Allocation across Services

CDCC will first use the surviving Clearing Members' RAD in respect of Core Products to cover outstanding losses in respect of Core Products and surviving Clearing Members' RAD in respect of Proprietary Swap Transactions to cover outstanding losses in respect of Proprietary Swap Transaction. Any remaining excess RAD within a service will then be used to cover outstanding losses related to Proprietary Swap Transactions or Core Products, as applicable.

b) Recovery Loss Cash Payment

After the complete exhaustion of Retained Amounts, the outstanding losses across all PAPs are extinguished with the Recovery Loss Cash Payment pro rata, based on the proportion of each surviving Clearing Member's Clearing Fund Requirement to the aggregate Clearing Fund Requirements of all Clearing Members.

Appendix 3: Bidding Incentives and the Loss Allocation Methodology

For each PAP where the portfolio has been successfully auctioned, and where losses remain after the allocation of the suspended Clearing Member financial resources and CDCC DRC, the loss allocation to the surviving Clearing Members' Clearing Fund Requirements will be based on the bidding behavior of the Eligible Clearing Members. This appendix describes:

1. How CDCC will categorize each Eligible Clearing Member based on their bidding behavior.
2. How CDCC will allocate losses, related to each PAP, to each Eligible Clearing Member and then extinguish such losses with their allocated surviving Clearing Members' Clearing Fund Requirements.
3. How CDCC will allocate losses to non-Eligible Clearing Members.

I. CDCC Products (excluding Proprietary Swap Transactions)

A. Bidding Behavior Assessment

For each successfully auctioned portfolio, the Corporation will categorize each Eligible Clearing Member (other than a Limited Clearing Member~~Members~~) based on its bidding behavior in the Default Auction in order to subordinate their Clearing Fund Requirements in the following order:

1. **Non-bidders:** Eligible Clearing Members that did not submit any bid⁸;
2. **Low-bidders:** Eligible Clearing Members that submitted a higher bid relative to the prevailing bid; and
3. **High-bidders:** The Prevailing Bidder plus any Eligible Clearing Member that submitted an equal bid relative to the prevailing bid.

B. Loss Allocation Methodology:

After the categorization of the Eligible Clearing Members based on their bidding behavior, losses are first allocated and then extinguished with the surviving Clearing Members' Clearing Fund Requirements within each category of bidders in the following order:

1. **Non-bidders:**

For each PAP, after the exhaustion of CDCC DRC, the total amount of outstanding losses, shall be extinguished pro rata, based on the proportion of (1) its Clearing Fund Requirements in respect of such PAP, to (2) the aggregate amount of Non-bidders' Clearing Fund Requirements in respect of such PAP, with the use of each Non-bidder's~~bidder's~~ resources as calculated in Appendix 2:

$$\frac{A\text{AAAAAAAAA}Aoo_P\text{PPPA}P\text{PAAAA}_N\text{NAA}oo_B\text{BBBBBB}P_\text{CCCC}\text{ll}}{\sum \text{CCCC}\text{NNNN_CCCC}\text{ll}} = \frac{\text{CCCC}\text{NNNN_CCCC}\text{ll}}{\sum \text{CCCC}\text{NNNN_CCCC}\text{ll}}$$

Where:

$\text{CCCC}\text{NNNN_CCCC}\text{ll}$ is the Clearing Fund Requirements of the Non-bidder Clearing Member i that is allocated to a PAP.

Within each PAP, all Non-bidders' Clearing Fund Requirements should be fully exhausted before applying Low-bidders' Clearing Fund Requirements to cover losses as described below.

⁸ For further clarity, an Eligible Clearing Member which indicated that it will not be participating in the auction will be considered a Non-bidder.

2. Low-bidders:

For each PAP with outstanding losses, the total amount of associated losses shall be extinguished based on its bid variance in respect of the winning bid, with the use of each Low-bidder's resources. In other terms, losses are allocated to each Low-bidder pro rata, based on the proportion of (1) the difference between its provided bid and the prevailing bid in respect of such PAP ("Bid Variance"), to (2) the sum of all Low-bidders' Bid Variances in respect of such PAP:

$$A_{AAAAAAAAAAAAAo_PPPPAAPAAAA_LLALL_BBB BBBBPP_CCCC} = \frac{B_{BBBB_LLNN_CCCC} - B_{BBBB_wwCCwwwww}}{\sum (B_{BBBB_LLNN_CCCC} - B_{BBBB_wwCCwwwww})}$$

Where:

$B_{BBBB_LLNN_CCCC}$ is the provided bid of the Low-bidder Clearing Member i; and

$B_{BBBB_wwCCwwwww}$ is the prevailing bid for the auction.

Within each PAP, all Low-bidders' Clearing Fund Requirements should be fully exhausted before applying High-bidders' Clearing Fund Requirements to cover losses as described below.

Therefore, if there remains a loss after the first loss allocation to the Low-bidders' Clearing Fund Requirements, while there are still some Clearing Members in the Low-bidders category with excess resources, such outstanding losses will be extinguished with the use of those excess Clearing Fund Requirements according to the same allocation methodology described in this Low-bidders Section. Such procedure shall be repeated until all the Low-bidders' Clearing Fund Requirements are exhausted.

3. High-bidders:

For each PAP with outstanding losses, the total amount of associated losses shall be extinguished pro rata, based on the proportion of (1) its Clearing Fund Requirement in respect of such PAP, to (2) the aggregate amount of High-bidders' Clearing Fund Requirements in respect of such PAP with the use of each High-bidder's resources:

$$A_{AAAAAAAAAAAAAo_PPPPAAPAAAA_HHHHH_BBB BBBBPP_CCCC} = \frac{C_{CCC_HHNN_CCCC}}{\sum C_{CCC_HHNN_CCCC}}$$

Where:

$C_{CCC_HHNN_CCCC}$ is the Clearing Fund Requirements of the High-bidder Clearing Member i that is allocated to a PAP.

II. Proprietary Swap Transactions

A. Bidding Behavior Assessment

1. Minimum Participation Requirement (MPR): Minimum bid size is applied and based on Base IM of each Clearing Member multiplied by a multiplier determined by CDCC (suggesting 1.1 or 1.15).

2. Non-bidders: Eligible Clearing Members that did not submit any bid⁹; or bid rejected by CDCC

⁹ For further clarity, an Eligible Clearing Member which indicated that it will not be participating in the auction will be considered a Non-bidder.

3. Low-bidders & MPR not met: Eligible Clearing Members that submitted a higher bid relative to the best bid submitted, however the bid size is not met the MPR.
4. High-bidder & MPR not met: The bidder(s) who submitted the best bid but did not meet the MPR.
5. Low-bidder & MPR met: Eligible Clearing Members that submitted a higher bid relative to the best bid with the bid size is equal or above MPR predetermined.
6. High-bidder & MPR met: The bidder(s) who submitted the best bid in addition to bid size is equal or above MPR predetermined.

B. Loss Allocation Methodology:

After the categorization of the Eligible Clearing Members based on their bidding behavior, losses are first allocated and then extinguished with the surviving Clearing Members' Clearing Fund Requirements within each category of bidders in the following order:

1. Non-bidders:

For each PAP, after the exhaustion of CDCC DRC, the total amount of outstanding losses, shall be extinguished pro rata, based on the proportion of (1) its Clearing Fund Requirements in respect of such PAP, to (2) the aggregate amount of Non-bidders' Clearing Fund Requirements in respect of such PAP, with the use of each Non-bidder's resources as calculated in Appendix 2:

$$A_{\text{AAAAAAAAAAAAAoo_PPPPAAPPAAAA_NNAAoo_BBBBBBBBPP_CCCC}} = \frac{CCC_{\text{NNNN_CCCC}}}{\sum CCC_{\text{NNNN_CCCC}}}$$

Where:

$CCC_{\text{NNNN_CCCC}}$ is the Clearing Fund Requirements of the Non-bidder Clearing Member i that is allocated to a PAP.

Within each PAP, all Non-bidders' Clearing Fund Requirements should be fully exhausted before applying Low-bidders' Clearing Fund Requirements to cover losses as described below.

2. Low-bidders & MPR not met:

For each PAP with outstanding losses, the total amount of associated losses shall be extinguished based on its bid variance in respect of the winning bid, with the use of each Low-bidder & MPR not met's resources. In other terms, losses are allocated to each Low-bidder & MPR not met pro rata, based on the proportion of (1) the difference between its provided bid and the best bid in respect of such PAP ("Bid Variance"), to (2) the sum of all Low-bidder & MPR not met's Bid Variances in respect of such PAP:

$$A_{\text{AAAAAAAAAAAAAoo_PPPPAAPPAAAA_LLAALL_bbABBBBBBBPP \& CCPPMM ooAAAA mmBBAA_CCCC}} = \frac{BBBBB_{\text{LLNN\&NNCC_CCCC}} - BBBB_{\text{NNwwBBBB}}}{\sum (BBBBB_{\text{LLNN\&NNCC_CCCC}} - BBBB_{\text{NNwwBBBB}})}$$

Where:

$BBBBB_{\text{LLNN\&NNCC_CCCC}}$ is the provided bid of the Low-bidder & MPR not met Clearing Member i; and

$BBBBB_{\text{NNwwBBBB}}$ is the best bid for the auction.

Within each PAP, all Low-bidders & MPR not met's Clearing Fund Requirements should be fully exhausted before applying High-bidders & MPR not met's Clearing Fund Requirements to cover losses as described below.

Therefore, if there remains a loss after the first loss allocation to the Low-bidders & MPR not met's Clearing Fund Requirements, while there are still some Clearing Members in the Low-bidders & MPR not met category with excess resources, such outstanding losses will be extinguished with the use of those excess Clearing Fund Requirements according to the same allocation methodology described in this Low-bidders & MPR not met Section. Such procedure shall be repeated until all the Low-bidders & MPR not met's Clearing Fund Requirements are exhausted.

3. High-bidders & MPR not met:

For each PAP with outstanding losses, the total amount of associated losses shall be extinguished pro rata, based on the proportion of (1) its Clearing Fund Requirement in respect of such PAP, to (2) the aggregate amount of High-bidders & MPR not met's Clearing Fund Requirements in respect of such PAP with the use of each High-bidder & MPR not met's resources:

$$AAHHHHHHHHHHHAAo_PPPPAAPPAHHH_HHh_BBHHHHHHPP & CCPPMM ooAAAA mmBBH_CCCC = \frac{CCCC_{HHNN\&NNCC_CCCC}}{\sum CCCC_{HHNN\&NNCC_CCCC}}$$

Where:

$CCCC_{HHNN\&NNCC_CCCC}$ is the Clearing Fund Requirements of the High-bidder & MPR not met Clearing Member i that is allocated to a PAP.

4. Low-bidders & MPR met:

For each PAP with outstanding losses, the total amount of associated losses shall be extinguished based on its bid variance in respect of the winning bid, with the use of each Low-bidders & MPR met's resources. In other terms, losses are allocated to each Low-bidder pro rata, based on the proportion of (1) the difference between its provided bid and the best bid in respect of such PAP ("Bid Variance"), to (2) the sum of all Low-bidders & MPR met's Bid Variances in respect of such PAP:

$$AAHHHHHHHHHHHAAo_PPPPAAPPAHHH_LLAHL_BBHHHHHHPP & CCPPMM mmBBH_CCCC = \frac{BBBBB_{LLNN\&CC_CCCC} - BBBB_{wwBBBB}}{\sum (BBBBB_{LLNN\&CC_CCCC} - BBBB_{wwBBBB})}$$

Where:

$BBBBB_{LLNN\&CC_CCCC}$ is the provided bid of the Low-bidder & MPR met Clearing Member i; and

$BBBBB_{wwBBBB}$ is the best bid for the auction.

Within each PAP, all Low-bidders & MPR met's Clearing Fund Requirements should be fully exhausted before applying High-bidders & MPR met's Clearing Fund Requirements to cover losses as described below.

Therefore, if there remains a loss after the first loss allocation to the Low-bidders & MPR met's Clearing Fund Requirements, while there are still some Clearing Members in the Low-Bidders & MPR met category with excess resources, such outstanding losses will be extinguished with the use of those excess Clearing Fund Requirements according to the same allocation methodology described

in this Low-bidders & MPR met Section. Such procedure shall be repeated until all the Low-bidders & MPR met's Clearing Fund Requirements are exhausted.

5. High-bidders & MPR met:

For each PAP with outstanding losses, the total amount of associated losses shall be extinguished pro rata, based on the proportion of (1) its Clearing Fund Requirement in respect of such PAP, to (2) the aggregate amount of High-bidders & MPR met's Clearing Fund Requirements in respect of such PAP with the use of each High-bidder's resources:

$$A_{HHNN\&CC_CCCC} = \frac{C_{HHNN\&CC_CCCC}}{\sum C_{HHNN\&CC_CCCC}}$$

Where:

$C_{HHNN\&CC_CCCC}$ is the Clearing Fund Requirements of the High-bidder & MPR met Clearing Member i that is allocated to a PAP.

III. Loss Allocation to Non-Eligible Clearing Member:

Within a PAP in a specific asset class, Clearing Members (excluding Limited Clearing Members) who are not eligible to participate in the auction will be exposed to losses once all the surviving Clearing Members' Clearing Fund Requirements of Eligible Clearing Members allocated to such asset class have been exhausted. In other terms, non-Eligible Clearing Members will be exposed to losses in the Inter-Class Allocation step, i.e. when losses are extinguished across all asset classes, as described in Appendix 2, Section IV) 1. c) Step 3 Inter-Class Allocation.

DEFAULT MANUAL

CLEAN VERSION

DEFAULT MANUAL

[...]

This Default Manual (the “Manual”) intends to summarize the Rules and provides certain details concerning the default management process of the Canadian Derivatives Clearing Corporation (“CDCC” or the “Corporation”) which is comprised of the actions, rights and remedies that the Corporation may take with respect to, and in connection with, Clearing Members in financial difficulty or potentially in default of any or all obligations under the Rules, as well as the governance, steps in implementing the default management and risk mitigation tools available to the Corporation (thereafter the “Default Management Process”). The Manual also addresses the actions, rights and remedies that the Corporation may take with respect to all Clearing Members upon the declaration of a Recovery Process, which also forms part of the Default Management Process. In case of conflict between the provisions set out in this Manual and the Rules of the Corporation, the Rules will prevail. Terms with capitals which are not defined in this Manual have the meanings ascribed to them in the Rules.

A fundamental objective of a central counterparty is to ensure the integrity of payments and/or physical delivery of securities, even in the unlikely event of a Clearing Member default. Since the default of one or more Clearing Members may have an impact on the continuity of clearing operations, the Corporation must ensure that efficient mechanisms and processes are in place, capable of limiting the adverse impacts of such an event, with respect to monitoring and the determination of a Clearing Member’s Non-Conforming Member status and a Clearing Member’s suspension. As such, this Manual is meant to:

1. Describe the grounds and events which may trigger the implementation of the Default Management Process and the enforcement actions that may be taken by the Corporation throughout the process;
2. Describe the governance process followed by the Corporation;
3. Describe the risk mitigation tools that can be used by the Corporation; and
4. Describe the Recovery Process and the related powers.

Section 1 : DEFAULT MANAGEMENT PROCESS - TRIGGERS AND IMPLEMENTATION

The grounds and events which may trigger the implementation of the steps, decisions, enforcement actions or remedies that may be taken by the Corporation as part of its Default Management Process are described below. The Rules, notably Rule A-1A - Membership in the Corporation, Rule A-3 - Financial Resilience Requirements, Rule A-4 - Enforcement, Rule A-6 - Clearing Fund Deposits, Rule A-7 - Margin Requirements, Rule A-7A Swap Margin Requirement, Rule D-7 - Clearing of SGC Repurchase Transactions and Rule D-8 Clearing of Proprietary Swap Transactions, support CDCC's authority in these actions and must be adhered to with extreme rigor.

1.1 Objectives of Default Management

Participants in the Default Management Process should at all times bear in mind the objectives of the default management exercise. These are delineated below:

- To minimize Clearing Member losses deriving from an inability of the Corporation to make settlement payments, protect surviving Clearing Members' Margin Deposits, and otherwise manage its responsibilities in a manner consistent with orderly markets.
- To ensure the continued effective functioning of the clearing process both during and after the default of a Clearing Member.
- To use all available powers and resources to protect the financial assets and positions of Clearing Members not contributing to the default. This includes, wherever possible, the comprehensive and efficient transfer by way of Porting of individual client Risk Accounts within Client Accounts and Market Maker Non-Firm Accounts with a suspended Clearing Member, including any position maintained in such account and any Margin Deposits held by the Corporation in respect of such account under the GCM Regime, to another Clearing Member as contemplated under Section A-401(3)(b) of the Rules.
- To minimize the market impact of the Default Management Process.
- With respect to SGC Repurchase Transactions, to obtain the best available market price for SGC Securities by executing a timely liquidation process, according to best practices. This includes, whenever possible, a Default Auction and/or the brokered sale of SGC Securities.
- To ensure the continued solvency of the Corporation and timely access to liquidity both during and after the Default Management Process.
- To communicate with regulatory authorities on actions taken throughout the Default Management Process.

Corporation management, staff and agents should conduct themselves at all times during the Default Management Process in a manner consistent with these objectives, and in general without regard to other considerations.

1.2 Triggers Leading to Non-Conforming or Suspension Status

Critical to the process of default management is, of course, defining the grounds and events which can lead a Clearing Member to be in default of its obligations and result in the Corporation declaring such member a Non-Conforming Member or suspending it, where warranted. As a general rule, the Corporation views any situation which would, in its judgment, impede a Clearing Member's ability to meet its obligations in the manner specified in Section A-1A04 or Section D-709, as grounds to declare a Clearing Member a Non-Conforming Member. Sections A-1A04, A-1A05 and D-709 of the Rules provide the details of the grounds and events that can lead the Corporation to declare a member a Non-Conforming Member or suspend it, respectively.

For the avoidance of doubt, as indicated in the Rules, the Corporation may in advance of, or in anticipation of, any default, including a breach of eligibility or standard of membership requirement which the Clearing Member is required to meet on an ongoing basis, declare a Clearing Member a Non-Conforming Member.

Where the Non-Conforming Member is insolvent or is unable or likely to be unable to meet its obligations under the Rules on a continuing basis, and has no reasonable prospect of returning to good standing or curing its default within a reasonable timeframe, the Corporation, may then suspend the Non-Conforming Member. The Corporation will act accordingly for any default, whether actual or imminent, that is of such a gravity that suspension would be warranted, taking into consideration the protection of the integrity of the market.

1.3 Status Associated with a Default

The Rules specify two distinct status levels associated with the default of a Clearing Member. The first is Non-Conforming Member status. At any point when the Clearing Member is or may become insolvent or unable to meet its obligations, management of the Corporation may declare that Clearing Member to be a Non-Conforming Member. Section A-1A04 and Section D-709 of the Rules provide the grounds on which the Corporation may do so. Upon a declaration of Non-Conforming Member status, the Corporation is empowered with the authority, as further specified below, to undertake a wide range of mitigating actions.

After giving consideration to the gravity of the situation and the likelihood of a remediation of the default by the Clearing Member and in order to protect the integrity of the market, the Board may, in its sole discretion, choose to suspend the Non-Conforming Member.

The Corporation's management is responsible to declare a Clearing Member Non-Conforming whereas a suspension decision must be taken by the Board. Please refer to Sections A-1A04 and A-1A05 of the Rules which lay out the specificities of Non-Conforming Member and suspension statuses, respectively.

1.4 Powers of the Corporation in the Default Management Process

1.4.1 Imposition of Additional Margin Call in Pre-Default

In accordance with Section A-702 and Section A-7A02, the Corporation, following a management decision, may, without advance notice and at its sole discretion, impose a requirement for additional Core Margin and/or additional Swap Margin on a Clearing Member, whether it is a Non-Conforming Member or not, for an indeterminate period. While this may be necessary under a wide range of circumstances, it is particularly relevant in situations where the Corporation has reason to believe a default is imminent but has yet to take a decision on Non-Conforming Member status.

The Clearing Member will be informed and will have to meet such additional Margin requirement within the same deadlines as regular Margin calls.

1.4.2 Implementation of Default Management Process: Non-Conforming Member and Suspension

In the event that the Corporation or the Board, as applicable, chooses to place a Clearing Member in either Non-Conforming Member status or suspension, it must, as soon as practicable, assess the situation and ensure that any and all remedies available to it are at its immediate disposal. The Corporation must use any and all commercially reasonable efforts to manage the default process.

For further clarity, the Corporation may simultaneously declare a Clearing Member to be a Non-Conforming Member and suspend such Clearing Member, without first applying the measures available under the Non-Conforming Member status.

Taking into consideration the context and materiality of the trigger event and the ability of the Clearing Member to correct the situation within reasonable delay, the Corporation or the Board, as applicable, may therefore choose to undertake any of the following set of actions in its efforts to mitigate associated damage.

1.4.3 Enforcement Actions Pursuant to Non-Conforming Member Status

- Prohibit and/or impose limitations on the acceptance and/or clearance of Transactions by the Non-Conforming Member.
- Require such Clearing Member to reduce or close out existing Transactions in such Clearing Member's accounts with the Corporation.
- Prevent the withdrawal of or restrict the Non-Conforming Member's right to withdraw any excess Core Margin Deposits or Swap Margin Deposits pursuant to Section A-607, Section A-704 or Section A-7A04, as applicable.
- Transfer, require the Clearing Member to transfer or transfer on such Clearing Member's behalf, all or any portion of a Non-Conforming Member's Client Accounts maintained by such Clearing Member with the Corporation, any position maintained in such Accounts and any Core Margin Deposits held by the Corporation in respect of such Accounts, to another Clearing Member.
- Undertake any legal action against the Non-Conforming Member that in the judgment of the Corporation may help to mitigate default-related losses.
- Sanction, reprimand, fine or impose a penalty on the Non-Conforming Member.
- Suspend the Non-Conforming Member.

1.4.4 Enforcement Actions Pursuant to a Suspension

In addition to the actions that the Corporation may take under Non-Conforming Member status, CDCC may, following the suspension of a Clearing Member:

- Seize all Margin Deposits deposit to the Corporation by the suspended Clearing Member, including its contributions to the Clearing Fund and use such Deposits to satisfy such Clearing Member's obligations.
- Seize control of all Open Positions held by the suspended Clearing Member.
- Liquidate, on behalf of the Trust, all SGC Securities provided by the suspended SGC Clearing Member.
- Restrict a suspended SGC Clearing Member from initiating new SGC Repurchase Transactions.
- Gain access, and, if necessary, control of the suspended Clearing Member's prescribed records, so as to ensure the continued efficient processing of business, and to ensure the suspended entity continues to comply with all Rules.
- Use all reasonable efforts to perform efficient transfer by way of Porting of individual client Risk Accounts within Client Accounts and Market Maker Non-Firm Accounts as contemplated under Section A-401(3)(b) of the Rules in a timeframe which is consistent with the Corporation's risk management model.
- Neutralize market exposures through the use of hedging instruments where, as determined by the Corporation, market conditions do not allow for an orderly auctioning or close-out of a suspended Clearing Member's Open Positions in a timeframe which is consistent with the Corporation's risk management model.

- Render a determination as to which Firm Accounts and Market Maker Firm Accounts of the suspended Clearing Member (subject to the objective of protecting to the largest extent possible, all Client Accounts and Market Maker Non-Firm Accounts) may have offsets which could be netted for risk reduction purposes.
- Place all accounts of the suspended Clearing Member on liquidation-only status.
- With respect to such accounts, effect liquidation of Open Positions of such Clearing Member, either directly by Corporation staff or as appropriate, through appointed agents.
- Schedule one or more auctions, as deemed necessary, to transfer all remaining Open Positions to other Clearing Members at the best available prices.
- Transfer Proprietary Swap Transactions to other Swap Clearing Members on a voluntary basis at the best available prices prior to the Default Auction with respect to Proprietary Swap Transactions.
- Potentially postpone delivery obligations in accordance with Rule A-8 if, in the judgement of the Corporation, not doing so would expose the Corporation and surviving Clearing Members to increased risk of financial loss.
- Potentially delay temporarily until the end of the business day the payment by CDCC of the Swap Net Settlement Amounts described in Section D-816(3), if in the judgment of the Corporation, doing so would not expose the Corporation and surviving Clearing Members to increased risk of financial loss.
- Apply any and all available financial resources, as further described below.

1.5 Default Management Period

The Default Management Period defines the period during which Clearing Members' financial resources are exposed to losses following a default from one or more other Clearing Members.

While the exact definition is provided in Rule A-411, the intent is to define the Default Management Period as the period starting from the suspension of a Clearing Member and ending when this default has been completely managed and the Corporation declares the Default Management Process to be completed. A default is deemed to be completely managed when:

- All obligations, losses and expenses are known or can reasonably be determined and have been successfully absorbed or otherwise settled; and
- The Corporation has successfully re-established a matched book.

For example, if a second Clearing Member suspension occurs during the Default Management Period, this period is extended and will end when the two defaults have been completely managed. Hence, if the second default occurs while the Corporation is still managing the first one, the maximum amount of Clearing Members' financial resources potentially exposed to losses will remain the same for the duration of the Default Management Period whether one or several defaults are processed.

1.6 Default Waterfall: Application of Financial Resources to Cover Default-Related Losses

In implementing the Default Management Process, the Corporation will aim at minimizing, to the extent possible and on a best-efforts basis, the losses to the Corporation and its stakeholders. If there are nonetheless losses to the Corporation, the Corporation must apply, in a specified order, a series of financial resources to ensure its ongoing viability and financial solvency. The sections below describe the financial

resources which form the Default Waterfall and the order in which CDCC will apply them to cover losses associated with the liquidation of a suspended Clearing Member.

i. Suspended Clearing Member Resources

- Suspended Clearing Member Margin Deposit (other than Clearing Fund deposits). The first line of financial protection is the Margin Deposit posted by the suspended Clearing Member as part of the Corporation's routine collateralization process;
- Excess in the Firm Margin Deposit Account will be available to the Corporation as part of the Default Waterfall or otherwise available to cover shortfalls resulting from uncovered losses in Client Accounts and Market Maker Non-Firm Accounts; Excess in GCM Margin Deposit Account and/or Non-GCM Margin Deposit Accounts will not be available to the Corporation as part of the Default Waterfall;
- Suspended Clearing Member's Clearing Fund deposits. As specified by the Rules, each Clearing Member (other than Limited Clearing Members) must also post a contribution to the Clearing Fund. Once the Corporation has exhausted the suspended Clearing Member's Margin Deposit, it will next use the suspended Clearing Member's contribution to the Clearing Fund in its loss absorption effort; and
- Suspended Clearing Member's Supplemental Liquidity Contributions. Once the Corporation has exhausted the suspended Clearing Member's Margin Deposit and Clearing Fund Deposits, it will next use the suspended Clearing Member's Supplemental Liquidity Contributions.

CDCC will first use suspended Clearing Member resources in respect of the Core Tranche of the Clearing Fund to cover the losses related to the Core Products and will use resources in respect of the Swap Tranche of the Clearing Fund to cover the losses related to Proprietary Swap Transactions. Any remaining excess suspended Clearing Member resources with respect to Core Products will then be used to cover outstanding losses related to Proprietary Swap Transactions and any remaining excess suspended Clearing Member resources with respect to the Proprietary Swap Transactions will then be used to cover outstanding losses related to Core Products, as applicable, in each case using the same order as described above. If after applying these resources of the suspended Clearing Member, a shortfall still remains in respect of Core Products, Proprietary Swap Transactions or both, the Corporation would, as indicated below, use the resources of the Corporation to cover the losses.

ii. Resources of the Corporation (Default Risk Capital - DRC)

- CDCC has capital reserves set aside specifically for the purpose of absorbing any loss outstanding after the exhaustion of the suspended Clearing Member's resources. This capital, which is \$15 million, is referred to herein as "Default Risk Capital" or "DRC". DRC will be used whether the loss arises from the liquidation of Core Products or Proprietary Swap Transactions.

iii. Surviving Clearing Members Clearing Fund Requirements

If, after applying the resources of the suspended Clearing Member and of CDCC, a shortfall still remains, CDCC will, as indicated below, use the required Clearing Fund deposits (referred herein as "Clearing Fund Requirement") of the other Clearing Members to cover the loss. CDCC will first use the Core Tranche of the Clearing Fund to cover the outstanding losses related to Core Products and use the Swap Tranche of the Clearing Fund to cover the outstanding losses related to Proprietary Swap Transactions. Any remaining excess of the Core Tranche of the Clearing Fund will be used to cover outstanding losses related to Proprietary Swap Transactions and any remaining excess of the Swap Tranche of the Clearing Fund will be used to cover outstanding losses related to Core Products, as applicable. For further details on the loss allocation, please refer to Appendices 2 and 3.

In the event the Corporation's DRC is partially used or exhausted in its entirety, the Corporation shall fully replenish its DRC by executing against or having recourse to its recapitalization plan.

The above set of financial resources (listed in (i) to (iii)), which form the prefunded financial resources of the Default Waterfall (the "**Prefunded Financial Resources**") and are readily available for the Corporation to extinguish financial losses stemming from a Clearing Member's default, are deemed highly reliable as they are under the control of CDCC and are held for this sole purpose. All Margin and Clearing Fund deposits are subject to a first ranking security interest granted by the Clearing Members to CDCC for such purpose.

iv. 2nd Surviving Clearing Members' Clearing Fund Requirements

- If after applying all of the financial resources specified above, a loss still persists, the Corporation may request that the remaining Clearing Members (other than Limited Clearing Members) replenish their Clearing Fund Requirements, in the manner specified in the Rules. The Corporation in total may apply up to a maximum of 200%¹ of the Clearing Fund Requirements of all such remaining Clearing Members, to satisfy the outstanding obligation as provided in Section A-609(5).

The Corporation shall follow the prescribed order of the Default Waterfall, and communicate with all relevant parties in an effective fashion. In the event that the Corporation is able to recover any loss incurred from the suspended Clearing Member, it shall first reimburse any other Clearing Member's Clearing Fund Requirements that were used to extinguish losses, in the reverse order of their application, before reimbursing CDCC's own capital reserves used.

v. Surviving Clearing Members' Supplemental Liquidity Contributions

- If, at any time during a Default Management Process, the Corporation must honor any liquidity obligations or exposure on a timely basis as a result of the suspension of a Clearing Member, the Corporation shall be authorized to use the Core Tranche of the Supplemental Liquidity Fund to cover liquidity obligations or exposure in respect of Core Products and the Swap Tranche of the Supplemental Liquidity Fund to meet liquidity obligations or exposure in respect of Proprietary Swap Transactions, as applicable. All surviving Clearing Members' Supplemental Liquidity Contributions used by the Corporation shall be paid back by the Corporation to the Supplemental Liquidity Fund after the Default Management Period has ended. In total, the Corporation may apply up to a maximum of 200% of the Supplemental Liquidity Contributions of all such surviving Clearing Members, as provided in Section A-6A08 of the Rules.

vi. Application of Financial Resources to Cover SGC Repurchase Transaction Default-Related Losses

- The Corporation will aim at maximizing, to the extent possible and on a reasonable efforts basis, the available liquidation value of the SGC Securities, through the use of Default Auction and/or broker sale. If there are any outstanding losses after the liquidation of SGC Securities pursuant to this Section 1.6, these losses are absorbed by the holders of the applicable SGC Notes.
- For greater certainty, SGC Clearing Members do not contribute to any Clearing Fund or Supplemental Liquidity Fund for SGC Repurchase Transactions. The Default Management Process for SGC Repurchase Transactions does not benefit from the Corporation's Default Risk Capital.

¹ The maximum percentage of 200% includes the prefunded surviving Clearing Members Clearing Fund Requirements described in sub-section iii.

1.7 Making Good on Charges to Clearing Fund

As described in Sub-section 1.6 above on the Default Waterfall, a surviving Clearing Member is potentially exposed to a loss representing 2 times its Clearing Fund Requirement during a Default Management Period. However, the Corporation must have the capacity to replenish promptly any depleted financial resources to ensure that CDCC maintains appropriate financial resources to continue to operate in a safe and prudent manner and maintain its Cover ¹² status. As such, each Clearing Member (other than Limited Clearing Members) is subject to an obligation to make good on charges to the Clearing Fund whenever an amount is paid out of the Clearing Fund Requirement. During a single Default Management Period, each Clearing Member is however only liable to make good an additional 200% of its Clearing Fund deposit required at the beginning of the Default Management Period. The additional contribution must be made no later than 2:00 p.m. on the Business Day following the date that the amount is paid out unless the Corporation issues a notice specifying a later date.

² The Cover 1 regulatory standard requires the Corporation to have at all times sufficient financial resources to cover the default of the Clearing Member and its Affiliates representing the largest stressed aggregate credit exposure for the Corporation.

Section 2 : DEFAULT MANAGEMENT GOVERNANCE

In this section, the Corporation outlines the specific actions to be taken by its staff, management and the Board, in order to ensure that it quickly identifies, reacts to, and effectively manages a condition of default. The two sub-sections are:

1. Governance Structure; and
 2. Roles and Responsibilities upon a Declaration of a Non-Conforming Member or suspension.
- 2.1 Governance Structure**

The Corporation's procedures for the management of a default are governed, under the auspices of its Board, by two Committees and an advisory group, presented below in their hierarchical order:

i. Default Management and Recovery Committee ("DMRC")

- In the default process, it is important for the Corporation to react in as timely a fashion as possible to identify the potential for a default by a Clearing Member. As such, under the authority of the President or his designee, if at any point the Corporation receives information which would, in its view, acting reasonably, likely lead to a default event by any Clearing Member, it will, as soon as practicable, convene a meeting of the Default Management and Recovery Committee. The DMRC is comprised of the individuals holding the following positions (or their delegates):
- President of CDCC
- Vice-President & Chief Risk Officer, CDCC
- Vice-President & Chief Operating Officer, CDCC
- Vice-President & Chief Commercial Officer, CDCC
- Treasurer, CDCC
- Director Risk Oversight & Compliance, CDCC
- Vice-President Integrated Operations, GES
- Director Strategic Initiatives, CDCC
- Director, Business Advisory and Regulatory Affairs, CDCC
- Chief Compliance Officer, CDCC
- Head of Delivery, CDCC

Each of these individuals, in managing their departments, must act with due rigor to assess issues, identify associated magnitudes, recommend actions and inform management, the Board and other Corporation stakeholders, as appropriate.

The responsibility of the DMRC is to make decisions related to the Default Management Process, e.g. the determination of Non-Conforming Member status and actions to be implemented to limit losses to the Corporation and the conforming Clearing Members. The DMRC can count on the participation of sub-committees to (i) help perform its mandate, namely the Emergency Committee ("EC"), and (ii) formulate the hedging and liquidation strategy, namely the Default Management Group ("DMG").

ii. Emergency Committee

The EC, chaired by the Vice-President & Chief Risk Officer or his designee, is composed of all DMRC members plus the following specialists (and/or any other representatives or designees deemed appropriate to involve in the process):

- MX Vice-President, Regulatory Division
- Head of Corporate Communications, TMX
- Director, Market Operations, MX
- Managers, Risk Management

It will be the responsibility of the EC to provide an ongoing assessment of the situation, and to report, as appropriate, to the Board, so as to ensure these bodies are in a position to render informed decisions throughout the process.

iii. Default Management Group

The DMG, chaired by the VP and Chief Risk Officer or his designee, is composed of all DMRC members plus specialists from different Clearing Members appointed by CDCC. The responsibility of the DMG is to analyze the situation and provide recommendations on the liquidation and hedging strategy.

2.2 Roles and Responsibilities Upon a Declaration of Non-Conforming or Suspension

The Rules provide for two statuses associated with the default of a Clearing Member: Non-Conforming Member status and suspension. Non-Conforming Member status can be determined by the Corporation's management, while a suspension must be determined by the Board.

2.2.1 Declaration of Non-Conforming Member Status

Grounds

Section A-1A04 addresses the grounds upon which the Corporation may declare Non-Conforming Member status. As expressed in Section A-1A04, these grounds are not exhaustive.

Communication

The Clearing Member should notify the Corporation if it is insolvent or unable to honor its obligations under the Rules.

However, in the event that the Clearing Member is declared as a Non-Conforming Member by the Corporation, the Corporation must inform the Clearing Member in writing or by telephone.

Authority

The Corporation may decide on Non-Conforming Member status.

Required Response by Non-Conforming Members

A Clearing Member which has experienced an event, technical or otherwise, as a result of which it fails or finds itself likely to fail to meet any of its day-to-day operational needs for its business must inform the Corporation immediately of such event. Failure to notify the appropriate Corporation staff members immediately may result in any actions contemplated under the Rules,

including disciplinary actions. A Non-Conforming Member may in certain cases remedy its situation by wiring required funds or posting additional collateral to the Corporation.

Contemporaneous to the notification of Non-Conforming Member status to a Clearing Member, the Corporation will ask such Clearing Member to state in writing its assertions with respect to each of the following:

- Cause of the action which placed it in Non-Conforming Member status;
- Remedies for the immediate circumstance; and
- Changes in its financial profile and operating protocols to guard against recurrence.

Corporation staff will work with the Non-Conforming Member to secure and assess its written response. Contemporaneously, the EC will work with the DMRC to determine any potential immediate additional actions, including recommendations to the Board regarding suspension.

In the event that a remedy occurs in a timely fashion, the Corporation will review the Non-Conforming Member's written explanation and will then determine next steps, including the potential removal of Non-Conforming Member status, or recommendations to the Board for suspension.

In executing these procedures, the Corporation must remain mindful of the narrow time window available to it to determine the next steps in the process. It is essential that all members of management and all Board members make themselves available as necessary to render timely and efficient decisions under these circumstances.

Implementation

The Corporation must work in concert with the Non-Conforming Member and the appropriate regulatory authorities to rectify the Clearing Member's Non-Conforming Member status.

The enforcement actions available to the Corporation, as set out under Section A-401 and as further explained in Section 1 of this Manual, are not exhaustive and are not necessarily presented in chronological order, and can be adapted as required by the Corporation according to the circumstances that prevail during the period the Clearing Member is a Non-Conforming Member.

Notifications

Once the Corporation has declared a Clearing Member to be a Non-Conforming Member, the Corporation will immediately consider its notice obligations. Those entities whose notification is considered include:

- The Clearing Members
- Appropriate regulatory authorities
- Exchanges and central clearing organizations ("CCOs")

While it will be the prerogative of the Corporation to determine the timing and content of its outside disclosures, it will nonetheless immediately inform any CCOs with which the Corporation has in place a Memorandum of Understanding for such information sharing.

2.2.2 Declaration of a Suspension

Grounds

A Non-Conforming Member may be suspended in accordance with Section A-1A05 which suspension may include any conditions that the Corporation may reasonably deem relevant in accordance with Section A-1A05. Sub-section 1.2 of this Manual also discusses the triggers which may lead to a suspension. The Corporation, upon approval of the Board, may decide to suspend a Clearing Member without it first having been declared a Non-Conforming Member.

Communication

The Corporation will communicate to the Clearing Member a written statement setting out the grounds for its suspension.

Authority

The Board has the authority regarding the suspension and lifting of a Clearing Member's suspension.

Implementation

Once the Board approves a suspension, the Corporation ceases to act on behalf of such suspended Clearing Member.

In accordance with Section A-1A05, the Corporation may then implement any of the enforcement actions set out under Section A-401 and as described in Section 1 of this Manual.

In accordance with Section A-1A05, 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.

The Board may lift a Clearing Member's suspension at any time.

Notifications

Once the Board has declared a Clearing Member to be suspended, the Board will immediately consider its notice obligations. Those entities whose notification is considered include:

- The Clearing Members
- Appropriate regulatory authorities
- Exchanges and CCOs

While it will be the prerogative of the Board to determine the timing and content of its outside disclosures, it will nonetheless immediately inform any CCOs with which the Corporation has in place a Memorandum of Understanding for such information sharing.

Appeal

Pursuant to Section A-1A07, the suspended Clearing Member may appeal a suspension decision. Such appeal does not impede the actions of the Corporation in the Default Management Process.

Section 3 : RISK MITIGATION TOOLS

Once a Clearing Member has been suspended, the Corporation shall take specific actions in order to protect the Corporation and the surviving Clearing Members. Conceptually, these actions can be aggregated into three categories and are normally executed in the order presented. While some actions might have been initiated by the Corporation pursuant to a declaration of Non-Conforming Member status, including, namely, the transfer of Client Accounts and Market Maker Non-Firm Accounts (outside of the Porting process), this section details how the Corporation will implement the risk mitigation tools, upon the suspension of the Clearing Member.

- **Prevention:** Prevention controls are the starting point of the management of a default under the suspension status. They are focused on preventing new Transactions to be cleared in the suspended Clearing Member's books.
- **Control:** Such actions are focused on taking control over the suspended Clearing Member's assets and positions.
- **Risk mitigation:** Such actions are focused on transferring by way of Porting as contemplated in Section A-401(3)(b) of the Rules, transferring risks, re-establishing a matched book, and neutralizing risks, at the lowest cost possible for the Corporation and the surviving Clearing Members, while managing the liquidity risk associated with the Default Management Process.

This section provides more information on the risk mitigation tools available to the Corporation.

3.1 Transfer by Way of Porting of Individual Client Risk Accounts

The Corporation will attempt, if it deems appropriate under the circumstances and on a best effort basis, to transfer by way of Porting client Risk Accounts within Client Accounts and Market Maker Non-Firm Accounts, to the books of other Clearing Members. Note that, as specified in Sub-section 1.1 (Objectives) of this Manual, the efficient and comprehensive transfer by way of Porting of all individual client Risk Accounts is an identified objective of the Default Management Process. For the avoidance of doubt, this includes transferring any Open Positions maintained in such account, or any account carried by such Clearing Member and any associated collateral (referred to herein as "Porting Base Core Initial Margin Collateral") held by the Corporation in respect of such account, to another Clearing Member as contemplated in Section A-401(3)(b) of the Rules.

3.1.1 Procedure Related to a Transfer by Way of Porting

- The procedure related to the transfer by way of Porting will start for CDCC immediately after the suspension of the Clearing Member and will continue until the end of the Default Management Period. Upon receipt of an updated GCM Declaration File and other client identification confirmation from the suspended Non-Conforming Clearing Member, CDCC will perform a Base Core Initial Margin calculation (each a "Suspension Point Margin Calculation"). The updated GCM Declaration File is required for CDCC to determine the Open Positions and the Porting Base Core Initial Margin Collateral for each individual client Risk Account. As outputs from the Suspension Point Margin Calculation, CDCC will produce reports containing porting information data, which it will make available to each client via its suspended Non-Conforming Clearing Member or by any other acceptable manner to CDCC.
- Clients wishing to be transferred by way of Porting are required to provide transfer instructions to CDCC (through the applicable Receiving Clearing Member or by any other acceptable manner to CDCC) no later than noon on the next Business Day following the initiation of the transfer process.
- CDCC will use its best efforts, if it deems appropriate under the circumstances, following the request of a client, to transfer the client's Open Positions and the Porting Base Core Initial Margin Collateral held by the Corporation in respect of such individual client Risk Account to the applicable Receiving Clearing Member. The aforementioned is subject to (1) the consent of the Receiving Clearing Member and CDCC, (2) the completion of any additional documentation required to proceed with a transfer by way of Porting.

3.1.2 Procedure Related to Post-Confirmation of a Transfer by Way of Porting

Immediately upon providing CDCC with its confirmation of accepting a client from a suspended Non-Conforming Member, a Receiving Clearing Member is deemed to have provided its irrevocable acceptance of receiving the client Risk Account. The Receiving Clearing Member also becomes fully liable for authenticating the identity of the client requesting a transfer by way of Porting. Once CDCC confirms proceeding with the transfer by way of Porting of a client to such Receiving Clearing Member, the latter will also be fully liable for all obligations related to the client ported Risk Account during and after the Default Management Period.

The Core Margin requirement impact of the incremental positions contained in the ported Risk Account is considered immediately, but the amount of Core Margin agreed to be ported by the Corporation to the Receiving Clearing Member in relation to the ported Risk Account will be considered as a Core Margin Deposit covering this Core Margin requirement. Any failure by the Receiving Clearing Member to accept a transfer by way of Porting of positions and/or to meet any obligations associated with the ported Risk Account will be deemed a breach of obligations and such Clearing Member shall become liable for all fees, expenses and obligations incurred by the Corporation in connection with such Clearing Member's failure to meet or honor its obligations. A failure by such Clearing Member to pay the costs and damages or meet any other obligations will automatically result in the determination by the Corporation of a Non-Conforming Member status. The Corporation will also notify all Clearing Members of the successful completion, or failure, as the case may be, of a transfer by way of Porting.

3.2 Liquidation

Upon a Clearing Member suspension, the Corporation may either liquidate, close out, and/or auction the suspended Clearing Member's positions as a means to crystallize their value and re-establish a matched book. The liquidation process may take place before, in parallel or subsequent to any auction(s) if the Corporation is not satisfied with the auction(s) outcome. For example, the liquidation could be preferred to the auction if the suspended Clearing Member's portfolio is small and liquid. A portfolio that is proposed to be liquidated is a "Liquidation Portfolio" and a successfully liquidated portfolio shall be referred to as a "Liquidated Portfolio". Additionally, for the liquidation of Proprietary Swap Transactions, the Corporation may also close out the suspended Clearing Member's positions by transferring them to surviving Clearing Members at the best available prices on a voluntary basis or executing liquidations via interdealer brokerage. For the liquidation of SGC Securities, the Corporation will use Default Auction and/or broker sale to obtain the best available liquidation value. Bids will be compared on each source and the prevailing bid will be accepted.

3.3 Default Auction

CDCC may also choose to organize one or more Default Auctions as a means to re-establish a matched book following the suspension of a Clearing Member. The auction may affect a portion or the entirety of the suspended Clearing Member's unmatched positions. CDCC may also choose to organise one or more Default Auctions as a means to liquidate the suspended Clearing Member's positions and SGC Securities. The terms and the procedure governing the Default Auction are summarized below:

3.3.1 Pre-Auction Procedure

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

- Identify the Clearing Members 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 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 mandatory for all Eligible Clearing Members. Participation in the Corporation's annual default simulation is mandatory for all Clearing Members.
 - Clearing Members who participate in the auction are referred to as "Auction Participants".
 - For all CDCC products, except Proprietary Swap Transactions, the Corporation will notify all eligible Clearing Members of the upcoming auction for each Auction Portfolio. 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.
 - For Proprietary Swap Transactions, CDCC will provide all eligible Clearing Members with the details of the Default Auction, including auction time, auction format and other relevant details pertaining to the auction process.
 - 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.
 - For SGC Securities Default Auctions, conforming SGC Clearing Members and any other Fixed-Income Clearing Members will be invited to participate in such auction.
 - b) **Auction Portfolio determination**
 - The Corporation may auction the suspended Clearing Member's portfolio in whole or in part, by decomposing it into smaller Auction Portfolios for Derivative Instruments,

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

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.

Fixed Income Transactions and SGC Securities, if deemed necessary (single-unit auction). For Proprietary Swap Transactions, the suspended Clearing Member's portfolio will be auctioned as a single whole portfolio, with Swap Clearing Members bidding on a percentage of the entire Auction Portfolio (multi-unit auction).

c) Allotment of financial resources to Portfolio Incentive Pools

- Before conducting an auction, the Corporation will allot, on a preliminary basis⁵, the Prefunded Financial Resources to each Portfolio Incentive Pool related to each Auction Portfolio or Liquidation Portfolio. For Proprietary Swap Transactions, the suspended Swap Clearing Member's portfolio is only to be allotted into one Auction Portfolio or one Liquidation Portfolio with its respective Portfolio Incentive Pool. The Portfolio Incentive Pool approach is not applicable to SGC Securities Auction Portfolios.
- A Portfolio Incentive Pool ("PIP") represents a pool of financial resources allotted by CDCC to one specific Auction Portfolio or Liquidation Portfolio.
- A detailed description of such a process is provided in Appendix 1. This step will allow CDCC to:
 - Estimate the amount of Prefunded Financial Resources allotted to each portfolio which could be used to absorb losses in connection with the liquidation or the auction of each portfolio, and
 - Inform each Eligible Clearing Member of the portion of its Clearing Fund Requirement attributed to each Auction Portfolio which could be at risk of being used to extinguish losses.
- Additionally, for the Auction Portfolio in a Default Auction with respect to Proprietary Swap Transactions, CDCC will determine and assign a Minimum Participation Requirement ("MPR") to each Auction Participant, specifying their minimum required participation rate for the entire Default Auction Portfolio. A Portfolio Incentive Pool will also be assigned accordingly. Failure to meet the MPR will have an impact on the order of loss allocation (for more details, please refer to Appendices 2 and 3).

3.3.2 Portfolio Auction

The portfolio auction process is comprised of three main components:

- The disclosure of the necessary information required by any Auction Participant to provide a bid;
- The procedure by which an Auction Participant must provide a bid; and
- The determination of the Prevailing Bidder.

⁵ The final allocation of financial resources to absorb losses, i.e. to discharge CDCC of obligations or losses, can only be done once the amount of losses are known and final, as described in Section 3.6.

a) Information provided

CDCC needs to provide sufficient information to all Auction Participants to enable them to submit a bid.

- The Corporation will provide all the relevant information for each Auction Portfolio, e.g. ISINs, prices, expiry dates/settlement dates as applicable. The Corporation will also indicate if the portfolio has been hedged and will give the details on the hedges which form part of the Auction Portfolio.
- The Corporation will also inform each Eligible Clearing Member of the preliminary amount of its Clearing Fund Requirement allotted to each Auction Portfolio. This information is important to assess the potential amount at risk in case the costs associated with the close-out, auction or liquidation of this portfolio were to exceed the suspended Clearing Member's resources and the CDCC Default Risk Capital.
- The relevant Minimum Participation Requirement (MPR), as applicable.
- Finally, the Corporation will also provide the detailed procedure by which an Auction Participant must provide a bid, as summarized in the sub-section below (bidding process).

b) Bidding process

- Auction Participants may bid on one or more Auction Portfolios and must submit their bids specifying the value of collateral they want to receive to assume the positions and the settlement of all the positions contained in each Auction Portfolio.
- For Default Auctions with respect to Proprietary Swap Transactions, Auction Participants must submit a price (the amount they are willing to pay or receive for a portfolio containing all positions in the Auction Portfolio) and a percentage of the Auction Portfolio, in accordance with their Minimum Participation Requirement (MPR).
- For SGC Securities Default Auctions, Auction Participants must submit bids by specifying a purchase price for each SGC Securities Auction Portfolio.
- Per CDCC Rule A-210(3) Brokers participating in the SGC Securities Default Auction may be permitted (as outlined in the SGC Securities Default Auction invitation) to share Default Auction information including bidding files with Clients and submit bids on behalf of Clients. Clearing Members acting as brokers must maintain clarity of broker role versus the role of bidding for their own or an affiliate's account. Client bidding information must not be shared with personnel who bid on behalf of the Clearing Member's own or affiliate's account.
- The Corporation shall specify in the auction documentation the time limit for Auction Participants to submit their bids from the time of the distribution of the relevant information on the auctioned portfolio, the "Bidding Window". The Bidding Window shall be for a minimum of two hours. No bids shall be accepted after the end of the Bidding Window.

c) Prevailing Bidder determination

- The Corporation will determine the winner of the auction for each Auction Portfolio on the basis of which Auction Participant has requested the least amount of collateral to accept all the positions associated with the Auction Portfolio. This does not apply

to Default Auctions with respect to Proprietary Swap Transactions or SGC Securities Default Auctions.

- For Default Auctions with respect to Proprietary Swap Transactions, the Corporation will determine the winners of the auction for the Auction Portfolio on the basis of which of the Auction Participants have requested the least amount of collateral to accept positions associated with the Auction Portfolio in accordance with their bid prices and percentages. Please refer to Appendix 3 for detailed bidding categories.
- For the SGC Securities Default Auction, the Corporation will determine the winner for each Auction Portfolio on the basis of which Auction Participant has offered the highest purchase amount for all the SGC Securities associated with that SGC Securities Auction Portfolio.
- Notwithstanding the above, the Corporation has full discretion in accepting or rejecting a bid.
- The Corporation will notify the Auction Participant(s) that submitted the prevailing bid(s) (each, a “Prevailing Bidder”) that their bid has been retained. In the case of Default Auctions with respect to Proprietary Swap Transactions, the Corporation will also notify each Prevailing Bidder of the individual outcomes of their bids, as applicable.
- The Corporation shall confidentially notify the Prevailing Bidder within a reasonable time after the closing of the Bidding Window.

3.3.3 Post Auction Procedure

For Core Products: Upon notification, the Prevailing Bidder will be deemed beneficial owner of the applicable Auction Portfolio and hedges, and will become fully liable for such Auction Portfolio, including meeting any Core Margin requirements associated with such Auction Portfolio. The Core Margin requirement impacts of the incremental positions contained in the Auction Portfolio are considered immediately, but the amount agreed to be paid by the Corporation to the Prevailing Bidder in relation to such Auction Portfolio will be considered as collateral covering the applicable Core Margin requirement, as applicable. Any failure by the Prevailing Bidder to accept the transfer of positions or meet any obligations associated with the Auction Portfolio will be deemed a breach of obligations and such Clearing Member shall become liable for all fees, expenses and obligations incurred by the Corporation in connection with such Clearing Member’s failure to honor its obligations. A failure by such Clearing Member to pay the costs and damages will automatically result in the determination by the Corporation of Non-Conforming Member status for such Prevailing Bidder. For greater certainty, the obligations described herewith apply to the Prevailing Bidder(s) of a Default Auction with respect to Proprietary Swap Transactions for their individual beneficial ownership of the Auction Portfolio.

For Proprietary Swap Transactions: On the following Swap Business Day after the completion of Default Auction, the Prevailing Bidder will be deemed beneficial owner of the applicable Auction Portfolio and hedges, and will become fully liable for such Auction Portfolio, including meeting any Swap Margin requirements associated with such Auction Portfolio. The Swap Margin requirement impacts of the incremental positions contained in the Auction Portfolio are considered next Swap Business Day. Any failure by the Prevailing Bidder to accept the transfer of positions or meet any obligations associated with the Auction Portfolio will be deemed a breach of obligations and such Clearing Member shall become liable for all fees, expenses and obligations incurred by the Corporation in connection with such Clearing Member’s failure to honor its obligations.

The Corporation will also notify all Clearing Members of the successful completion, or failure, as the case may be, of the auction in addition to communicating to each Eligible Clearing Member the bidding category they fall into (e.g. Low-bidder or Non-bidder).

In the case of Default Auctions, the Corporation will transfer all positions and associated collateral to the Prevailing Bidder no earlier than by the end of the next following Business Day or Swap Business Day, as applicable, and no later than the end of the second Business Day or Swap Business Day, as applicable, after the notification to the Prevailing Bidder.

3.3.4 Post SGC Securities Default Auction Procedure

Upon notification, the Prevailing Bidder will be required to create and execute purchase transactions for DVP settlement in CDS for the SGC Securities contained in the Auction Portfolio for which the Clearing Member was the Prevailing Bidder. Any failure by the Prevailing Bidder to complete any SGC Securities purchase transactions or meet any obligations associated with the SGC Securities Default Auction will be deemed a breach of obligations and such Clearing Member shall become liable for all fees, expenses and obligations incurred by the Corporation in connection with such Clearing Member's failure to honor its obligations. Prevailing bidder must initiate a trade for all SGC Securities purchase transactions with a Settlement Date as prescribed by CDCC in the SGC Default Auction instructions. Such Settlement Date will be no earlier than by the end of the next following Business Day and no later than the end of the second Business Day after the notification to the Prevailing Bidder.

The Corporation will also notify all Clearing Members of the successful completion, or failure, as the case may be, of the SGC Securities Default Auction. For an SGC Securities Default Auction, the bidding category is not applicable as no Prefunded Financial Resources will be available for loss absorption.

3.4 Portfolio Hedging

At any time during the Default Management Process, the Corporation may, if it deems appropriate, hedge the portfolio of the suspended Clearing Member in order to limit the accumulation of market and credit losses. Note that in such cases, the Corporation may consider as hedges the use of instruments not part of the organization's clearing universe, including cash securities.

3.5 Liquidity Management

While not a source of capital available for the offset of losses, the Corporation has available an array of liquidity tools and facilities, which it may, at its discretion, call upon to assist with the funding of its loss mitigation activities. In the event of a default, the Corporation must make a determination as to how to deploy these resources:

- Drawing upon its commercial bank liquidity lines, in whole or in part.
- Using the Supplemental Liquidity Contributions held in the Core Tranche of the Supplemental Liquidity Fund and the Swap Tranche of the Supplemental Liquidity Fund, as applicable, in each case in whole or in part. The Supplemental Liquidity Fund shall not be used for loss allocation. Any usage by the Corporation of the Supplemental Liquidity Fund will be paid back as soon as practicable after a Default Management Period.
- Raising liquidity through outright sales and/or Repurchase Transactions involving Securities of the suspended Clearing Member.
- Raising liquidity through the sale of non-Canadian currencies pledged by the suspended Clearing Members in respect of Core Products.

- Raising liquidity through the exercise of its rights of re-pledging/re-hypothecation of suspended Clearing Member's Margin Deposits (including without limitation Margin and Clearing Fund deposits).
- Raising liquidity through the exercise of its rights of re-pledging/re-hypothecation of surviving Clearing Members' Clearing Fund Requirements.
- The above liquidity management tools and facilities are not available for an SGC Securities Default Auction.

CDCC will first use the Core Tranche of the Supplemental Liquidity Fund to meet liquidity obligations in respect of Core Products and use the Swap Tranche of the Supplemental Liquidity Fund to meet liquidity obligations in respect of Proprietary Swap Transactions. The Corporation shall be authorized to use the Core Tranche of the Supplemental Liquidity Fund to meet liquidity obligations in respect of Proprietary Swap Transactions, and the Swap Tranche of the Supplemental Liquidity Fund to meet liquidity obligations in respect of Core Products, as applicable.

3.6 Loss Allocation Methodology

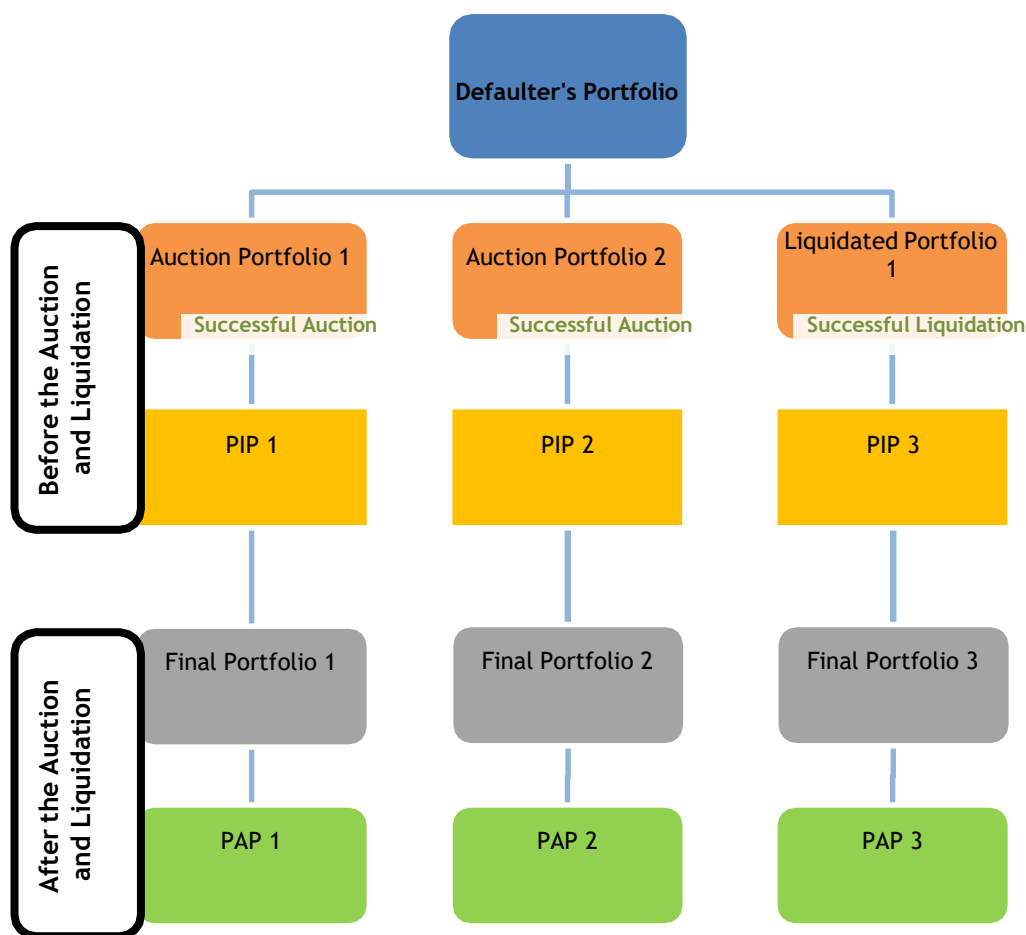
In implementing the Default Management Process, the Corporation will aim at minimizing the losses to the Corporation and its stakeholders.

- After the end of the Default Management Period, the Corporation will assess the total losses incurred or sustained by it. These losses include, but are not limited to, all default related obligations, costs or expenses incurred or sustained by the Corporation in connection with the administration, auction, closing-out, liquidation, hedging, financing or transfer of positions. Such calculation will be done separately for Core Products and Proprietary Swap Transactions.
- For each Auction Portfolio or Liquidated Portfolio, the Corporation will allocate the financial resources contained in the Default Waterfall to the relevant Portfolio Allocation Pool ("PAP"). While the complete methodology is provided in Appendices 2 and 3, the loss allocation methodology follows these principles:
 - The Corporation must extinguish the losses with the financial resources contained in the Default Waterfall in the order specified in Sub-section 1.6.
 - In the event of a cross-default, the financial resources of CDCC's DRC shall be allocated between Core Products and Proprietary Swap Transactions, based on the proportion of each of Base Core Initial Margin and Base Swap Margin to the aggregate of Base Core Initial Margin and Base Swap Margin.
 - The suspended Clearing Member's resources and the CDCC Default Risk Capital are allocated pro rata, based on the proportion of each PAP's Base Core Initial Margin to the aggregate Base Core Initial Margin of all PAPs or the Base Swap Margin to the aggregate Base Swap Margin of all PAPs, as applicable. Losses are then attributed to these resources. CDCC will first use suspended Clearing Member resources in respect of the Core Tranche of the Clearing Fund to cover the losses related to Core Products and the Clearing Member resources in respect of the Swap Tranche of the Clearing Fund to cover the losses related to Proprietary Swap Transactions. Any remaining excess suspended Clearing Member resources within the Core Tranche of the Clearing Fund will then be used to cover outstanding losses related to Proprietary Swap Transactions and any remaining excess suspended Clearing Member resources within the Swap Tranche of the Clearing Fund will then be used to cover outstanding losses related to Core Products.
 - If any losses persist after the suspended Clearing Member's resources and CDCC Default Risk Capital have been fully exhausted, Clearing Fund contributions from surviving Clearing Members will be used to cover outstanding losses. CDCC will first use the Clearing Fund contributions in respect of Core Products to cover the outstanding losses related to Core

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Products and Clearing Fund contributions in respect of the Proprietary Swap Transactions to cover the outstanding losses related to Proprietary Swap Transactions. Any remaining excess Clearing Fund contributions within Core Products will then be used to cover outstanding losses related to Proprietary Swap Transaction and any remaining excess Clearing Fund contributions within Proprietary Swap Transactions will then be used to cover outstanding losses related to Core Products.

- The Clearing Fund Requirement of each surviving Clearing Member is allocated to each PAP in a two-steps process as explained in Appendix 2. Afterwards, losses are attributed to the Clearing Fund Requirements of surviving Clearing Members based on their bidding behavior in the Default Auction(s) (please refer to Appendix 3 - Bidding Incentives). If no auction was performed, the losses are attributed on a pro rata basis among the allocated Clearing Fund Requirements of the surviving Clearing Members to such PAP, in accordance with Appendix 2 - Loss Allocation Methodology.



- In the event that the Corporation is later able to recover from the suspended Clearing Member any amount, such amount shall be returned to the other Clearing Members to compensate for any amount charged to them and for the financial resources levied from them as part of the Default Management Process in the reverse order that these resources were used to cover the losses.

- The above loss allocation methodology is not applicable following an SGC Securities Default Auction. Once all the SGC Securities have been liquidated through the use of Default Auction and or broker sales, CDCC will transfer all the proceeds from such liquidation to the Trust's liquidation settlement account.

3.7 Impact of the Unsuccessful Application of Mitigation Tools

In the event that the Corporation has been unable to return to a matched book, or if the losses incurred in connection with the Default Management Process exceed the Default Waterfall, each of which is a Recovery Event (as defined in the Rules), the Corporation may then apply a set of Recovery Powers following the declaration by the Board of the initiation of the Recovery Process. The Recovery Process is described in Section A-10 of the Rules and in Section 4 below.

Section 4 : RECOVERY PLAN

The Default Management Process described above ensures that the Corporation has in place tools and processes to appropriately manage the risks following the default of a Clearing Member. Supplementing the Default Management Process, the Corporation has in place a recovery plan which provides for a defined set of actions to address any uncovered losses, liquidity shortfall or capital inadequacy, arising from the Clearing Member(s)' default(s) in the unlikely event that the Default Waterfall proves insufficient.

Rule A-10 governs the Corporation and Clearing Members' obligations in a Recovery Process. The section below provides for general information with respect to the triggers of the Recovery Process, a description of the Recovery Powers that may be used by the Corporation upon a declaration of Recovery Process, the governance supporting such process and the Recovery Loss⁶ allocation methodology.

4.1 Triggers for the Recovery Process

The Corporation's management may recommend to the Board to trigger the implementation of the Recovery Process, after the suspension of a Non-Conforming Member, in either of the following situations:

- The Corporation, acting reasonably, determines that obligations, losses or expenses incurred or sustained by the Corporation as a result of, or in connection with, the suspension of one or more Clearing Members may exceed the resources available through the Default Waterfall; or
- After the exercise of the normal default management tools (powers contemplated in Rule A-4) or any rights or remedies provided under the Rules, the Corporation reasonably determines that it has been, or will likely be, unable to re-establish a matched book.

Some extreme financial stress could lead the Corporation to have insufficient resources as part of the Default Waterfall to absorb losses or settle expenses, payments or obligations in connection with the default of a Clearing Member. For example, the most favorable bid received in the course of a Default Auction may be significantly in excess of the Margin associated with the positions contained in an Auction Portfolio as a result of market uncertainty. Another illustration would be the case where the suspended Clearing Member's portfolio value may be negatively impacted by the occurrence of a market event with an impact that is greater than the market scenario that was planned for as part of the daily risk management activities. CDCC can also face short-term liquidity pressure arising from an unexpectedly high settlement amount incurred by CDCC as a result of the suspended Clearing Member's Fixed Income Transactions.

In parallel, CDCC could also have sufficient financial resources but be unable to close out all the positions of the suspended Clearing Member following a series of failed Default Auctions in the absence of bids.

4.2 Recovery Powers

Upon the declaration by the Corporation of the commencement of a Recovery Process, CDCC may exercise extraordinary remedies against its Clearing Members in good standing to ensure that the Corporation continues to operate on an ongoing basis and to address uncovered losses or a liquidity shortfall. Such extraordinary remedies, referred to as Recovery Powers, are listed below and detailed in the Rules and can be applied in the manner set out in the applicable sections.

Recovery Powers aim at achieving two distinct objectives and can be classified as follows: 1) Recovery Powers which can extinguish uncovered losses or a liquidity shortfall, and 2) Recovery Powers which can re-establish a matched book.

4.2.1 Recovery Powers to Extinguish Uncovered Losses or a Liquidity Shortfall

The exercise by the Corporation of the Recovery Powers of this Subsection 4.2.1 is applicable to all Clearing Members, except SGC Clearing Members.

⁶ Recovery Loss has the meaning given thereto in Section A-1002 of the Rules.

4.2.1.1 Reduced Amounts Distribution

During a Default Management Period, after the commencement of the Recovery Process, the Corporation may withhold the payment of all or a portion of certain amounts (defined as the “Qualified Amounts” under the Rules) owed by the Corporation to the Clearing Members, a process referred therein as “Reduced Amounts Distribution” or “RAD”. As defined in the Rules, the Qualified Amounts include the payment of certain amounts in cash and/or the transfer of securities for Net Variation Margin Requirement purposes, pursuant to D-607 of the Rules and payment of Swap Net Settlement Amounts pursuant to D-815 of the Rules.

The purpose of the RAD is to withhold certain gains from Clearing Members to allow the Corporation to absorb certain losses. This tool aims at reducing liquidity pressure on Clearing Members while helping the Corporation extinguish losses.

- **Qualified Amounts**

Consistent with the purpose of this tool, the Qualified Amounts are payments or obligations and are specific to each asset class.

For Futures and Options, the Qualified Amounts are the net amount owed by the Corporation in respect of:

- 1) The net value of the Gains and Losses for that day in respect of all such Clearing Member’s Open Positions in Futures;
- 2) 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 an Exchange; and
- 3) 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.

For Fixed Income Transactions, the Qualified Amounts calculation is based on the following concepts:

- 1) For all Clearing Members, except the Limited Clearing Members, any decrease in Variation Margin Requirement since the last Business Day prior to the commencement of RAD will be subject to RAD for all Fixed Income Transactions still outstanding as of the day of the calculation.
- 2) For Limited Clearing Members, any decrease in Variation Margin Requirement since last Business Day prior to the commencement of RAD will be subject to RAD for the Fixed Income Transactions which were, before submission for clearing with the Corporation, originally entered into by the Limited Clearing Member and the suspended Clearing Member and which are still outstanding as of the day of the calculation.

For Proprietary Swap Transactions, the Qualified Amounts calculation is based on the following concepts:

- 1) The Swap Net Settlement Amount for that Swap Business Day in respect of all such Clearing Member’s Proprietary Swap Transactions.
- 2) The Swap Net Settlement Amount is calculated using CDCC’s Proprietary Swap Transactions pricing mode and Rule D-8.

The detailed Qualified Amounts methodology is described in Subsection A-1005(3) of the Rules.

- **RAD Process**

The exercise of the Reduced Amounts Distribution by the Corporation requires that certain conditions be met:

- **Trigger:** If in the reasonable judgment of the Corporation, the Recovery Event may result in the Corporation incurring obligations, losses and expenses in an amount in excess of the resources available pursuant to the Default Waterfall;
- **Maximum Duration:** The Corporation may not exercise the RAD power for more than four (4) consecutive Business Days during a single Default Management Period and shall resume the payment of Qualified Amounts after the end of that period;
- **Permitted Use:** The Corporation will only use the Retained Amounts for satisfying or otherwise settling Recovery Losses⁷, after the exhaustion of the resources available pursuant to the Default Waterfall; and
- **Notice and Implementation:** The Corporation will communicate to all Clearing Members that RAD will be applied during the payment cycles. On each day of the Reduced Amounts Distribution Period, the Corporation will notify each Clearing Member of its relevant Retained Amount which will be withheld. The Corporation shall also communicate to all Clearing Members the end of the Reduced Amounts Distribution Period.

More information on the Reduced Amounts Distribution can be found in Section A-1005 of the Rules.

4.2.1.2 Recovery Loss Cash Payment

During a Default Management Period, subsequent to the commencement of the Recovery Process, the Corporation may require its Clearing Members, excluding Limited Clearing Members, to meet a Recovery Loss Cash Payment. The use of such tool is limited to certain conditions:

- **Trigger:** If, in the reasonable judgment of the Corporation, the Recovery Event may result in the Corporation incurring obligations, losses and expenses in an amount in excess resources available pursuant to the Default Waterfall and the Retained Amounts and such amount is known or can reasonably be determined;
- **Maximum Amount:** The maximum aggregate amount which may be required from a Clearing Member during a single Default Management Period cannot exceed such Clearing Member's Clearing Fund Requirement as of the commencement of the Default Management Period and shall be determined separately in respect of the Core Tranche of the Clearing Fund and the Swap Tranche of the Clearing Fund;
- **Limited Use:** The Corporation will use the financial resources accumulated through Recovery Loss Cash Payments in respect of the Core Tranche of the Clearing Fund to extinguish any outstanding losses or obligations incurred by the Corporation in connection with the Recovery Event in respect of Core Products

⁷ The Retained Amounts withheld on an LCM Fixed Income Transaction in relation to the suspension of a Clearing Member shall only be used to extinguish losses incurred in connection with such suspended Clearing Member.

after the exhaustion of the resources available pursuant to the Default Waterfall and the resources retained as part of the RAD in respect of the Core Products. The Corporation will use the financial resources accumulated through Recovery Loss Cash Payments in respect of the Swap Tranche of the Clearing Fund to extinguish any outstanding losses or obligations incurred by the Corporation in connection with the Recovery Event after the exhaustion of the resources available pursuant to the Default Waterfall in respect of Proprietary Swap Transactions and the resources retained as part of the RAD in respect of Proprietary Swap Transactions; and

- **Notice and Implementation:** The Corporation will communicate to each Clearing Member the proportional amount, if any, that such Clearing Member must pay in respect of (i) Core Products, and (ii) Proprietary Swap Transactions at the next Settlement Time.

The Recovery Powers form part of the rights and remedies that may be exercised by the Corporation pursuant to a declaration of the commencement of a Recovery Process, therefore a failure to pay by a Clearing Member its Recovery Loss Cash Payment is a ground for Non-Conforming Member status and may lead to the suspension of such Clearing Member.

More information on the Recovery Loss Cash Payment can be found in Section A-1006 of the Rules.

4.2.2 Recovery Tools to Re-Establish a Matched Book

All Recovery Powers in this section are based on Clearing Members' voluntary participation.

4.2.2.1 Recovery Auction

At any point in time during the Recovery Process, the Corporation may choose to hold one (or several) Recovery Auction(s) as a means to re-establish a matched book following the suspension of a Clearing Member. The Recovery Auction(s) only relates to the suspended Clearing Member's Fixed Income Transactions and Proprietary Swap Transactions. The Recovery Auction relies on the same participation and bidding rules and principles governing the Default Auction as set out in Sub-section 3.3. However, the Recovery Auction does not take into consideration bidding behavior to determine the impact on the loss allocation methodology. The complete loss allocation methodology is detailed in Appendix 2.

More information on the Recovery Auction can be found in Section A-1007 of the Rules.

4.2.2.2 Voluntary Contract Tear-Up

In order to return to a matched book, the Corporation may also ask the surviving Clearing Members to agree, on a voluntary basis, to tear-up outstanding positions. The purpose of a Voluntary Contract Tear-Up is to close out the remaining positions of the suspended Clearing Member by terminating simultaneously the offsetting positions held by the surviving Clearing Members. The use of such tool is limited to certain conditions:

- **Trigger:** Voluntary Contract Tear-Up will only be used after declaration of a Recovery Process and if the Corporation determines that it has been unable to transfer, close out, or liquidate all the positions of the suspended Clearing Member with the standard default management tools as described in Rule A-4 or Section 3 of this Manual. For Fixed Income Transactions and Proprietary Swap

Transactions, the Voluntary Contract Tear-Up can only be offered following the holding of a Recovery Auction.

- **Notice and Implementation:** The Corporation will notify Clearing Members in advance of its intention to implement Voluntary Contract Tear-Up. At the Close of Business, the Corporation will communicate to each Clearing Member the suggested proportion of its Open Positions, including Proprietary Swap Transactions, which could be torn-up along with the Tear-Up Value of such Open Positions. This notification will occur after the notification to the Clearing Members regarding Retained Amounts if applicable.
- For each Clearing Member, the suggested proportion to be torn-up is calculated by allocating the suspended Clearing Member's Open Positions pro rata, based on the proportion of the Clearing Member's opposite net Open Positions to the opposite net Open Positions of all surviving Clearing Members. For a Proprietary Swap Transaction, the suspended Clearing Member's Proprietary Swap Transactions can only be torn-up with the original counterparty of the Bilateral Swap Transaction.
- The Tear-Up Value of Open Positions will be determined at the prevailing end-of-day market price as explained in Subsection A-1008(4) of the Rules.

▪ **Implementation Impact for Fixed Income Transactions**

For a Fixed Income Transaction, the impact of tearing-up is the following:

- At the date of the Voluntary Contract Tear-Up, any Variation Margin that is owed by the surviving Clearing Member to CDCC will become payable in accordance with the ordinary Variation Margin Settlement Time and any Variation Margin owed by CDCC to the surviving Clearing Member which is not otherwise subject to a Reduced Amount Distribution will become due in accordance with the ordinary Variation Margin Settlement Time.

For further clarity, where the Corporation concurrently exercises its RAD power in respect of a Fixed Income Transaction that is also subject to Voluntary Contract Tear-Up, the interaction between the Retained Amount and the amount payable following the Voluntary Contract Tear-Up of a Fixed Income Transaction is as follows:

- If at the date of the Voluntary Contract Tear-Up, for each Fixed Income Transaction to be torn-up, the associated Retained Amount is notified to the Clearing Member, the net amount payable by CDCC for such Fixed Income Transaction will be equal to the Variation Margin owed by CDCC to the surviving Clearing Member less the Retained Amount.
- Any future outstanding payment or delivery obligations in respect of all the Fixed Income Transactions which a Clearing Member has consented to terminate will be terminated. This implies that upon termination, any Coupon Income owed by the Corporation to a surviving Clearing Member will not be distributed. It also means that the Repo Party that sold the Purchased Securities and received the Purchase Price in the Open Leg, will not receive the Purchased Securities and will not pay the Repurchase Price in the Close Leg. Similarly, the Reverse Repo Party that bought the Purchased Securities in the Open Leg and paid the Purchase Price, will not deliver the Purchased Securities and will not receive the Repurchase Price in the Close Leg. Equally, the Buyer who initially agreed to pay the Purchase Price will not receive the Purchased Securities and the Seller will retain the Purchased Securities and will not receive the Purchase Price.
- Any securities pledged to a Clearing Member in respect of a Variation Margin Requirement in connection with the torn-up Fixed Income Transactions, in possession of such Clearing

Member prior to the date of the Voluntary Contract Tear-Up, shall remain the possession of such Clearing Member.

- Any Core Initial Margin pledged in support of the torn-up Transactions by the non-defaulting Clearing Member shall become excess Margin and be retrievable by such Clearing Member after the date of the Voluntary Contract Tear-Up.

▪ **Implementation Impact for Options and Futures Contracts**

- At the date of the Voluntary Contract Tear-Up, any Settlement of Gains and Losses on Futures or Option Premium that is owed by the non-defaulting Clearing Member to CDCC will become payable in accordance with the ordinary Settlement Time and any Variation Margin or Option Premium owed by CDCC to the surviving Clearing Member which is not otherwise subject to Reduced Amount Distribution will become due in accordance with the ordinary Settlement Time.
- Any Core Initial Margin pledged in support of Futures or Options positions by the non-defaulting Clearing Member shall become excess Margin and be retrievable by such Clearing Member after the date of the Voluntary Contract Tear-Up.
- The Corporation shall terminate any future outstanding payment or delivery obligations in respect of all Futures and Options positions which a Clearing Member has consented to terminate. In other terms, from the moment the contract is terminated, the positions cease to exist and no exercise or assignment could be performed.

▪ **Implementation Impact for Proprietary Swap Transactions**

- At the date of the Voluntary Contract Tear-Up, any Swap Net Settlement Amount that is owed by the non-defaulting Clearing Member to CDCC will become payable in accordance with the ordinary Settlement Time and any Swap Net Settlement Amount owed by CDCC to the surviving Clearing Member which is not otherwise subject to Reduced Amount Distribution will become due in accordance with the Proprietary Swap Transactions Settlement Time.
- Any Swap Margin pledged in support of Proprietary Swap Transaction positions by the non-defaulting Clearing Member shall become excess Margin and be retrievable by such Clearing Member after the date of the Voluntary Contract Tear-Up.
- The Corporation shall terminate any future outstanding payment obligations in respect of all Proprietary Swap Transaction positions which a Clearing Member that was the original counterparty of the related Bilateral Swap Transaction(s) has consented to terminate. In other terms, from the moment the contract is terminated, the positions cease to exist.

More information on the Voluntary Contract Tear-Up can be found in Section A-1008 of the Rules.

4.3 Liquidity Management

Without limiting the options provided in Subsection 3.5 of this Manual, such options being also available to the Corporation in a Recovery Process, in managing its liquidity, the Corporation can use, after the financial resources of the Default Waterfall, the available financial resources levied through the exercise of its Recovery Powers such as the Reduced Amounts Distribution and the Recovery Loss Cash Payment for temporary liquidity funding. Indeed, these recovery tools can be similarly used in accordance with the Rules for either (1) credit purposes to cover any market-driven losses related to a default, or (2) liquidity purposes to cover any liquidity-driven obligation related to the liquidation of the suspended Clearing Member's collateral and positions. Such resources shall be applied in respect of Core Products and Proprietary Swap Transactions in accordance with the rules otherwise applicable thereto.

4.4 Recovery Governance

Following the declaration by the Corporation, and as approved by the Board, of the commencement of a Recovery Process (see Subsection 4.1), the Board shall delegate to CDCC's management the authority to make any reasonable decision regarding the timing and use of Recovery Powers to address uncovered losses or a liquidity shortfall caused by Clearing Member(s)' default(s) and re-establish a matched book, in accordance with the powers entrusted to the Corporation in the Rules. The decision-making respecting the application of recovery tools is a natural extension of the existing Default Management Process. As such, the governance in place for the Default Management Process and set out under Section 2 of this Manual will be extended for the Recovery Process. The Default Management And Recovery Committee will be responsible to make decisions related to the application of the Recovery Powers with the support of the Emergency Committee.

- **Notifications**

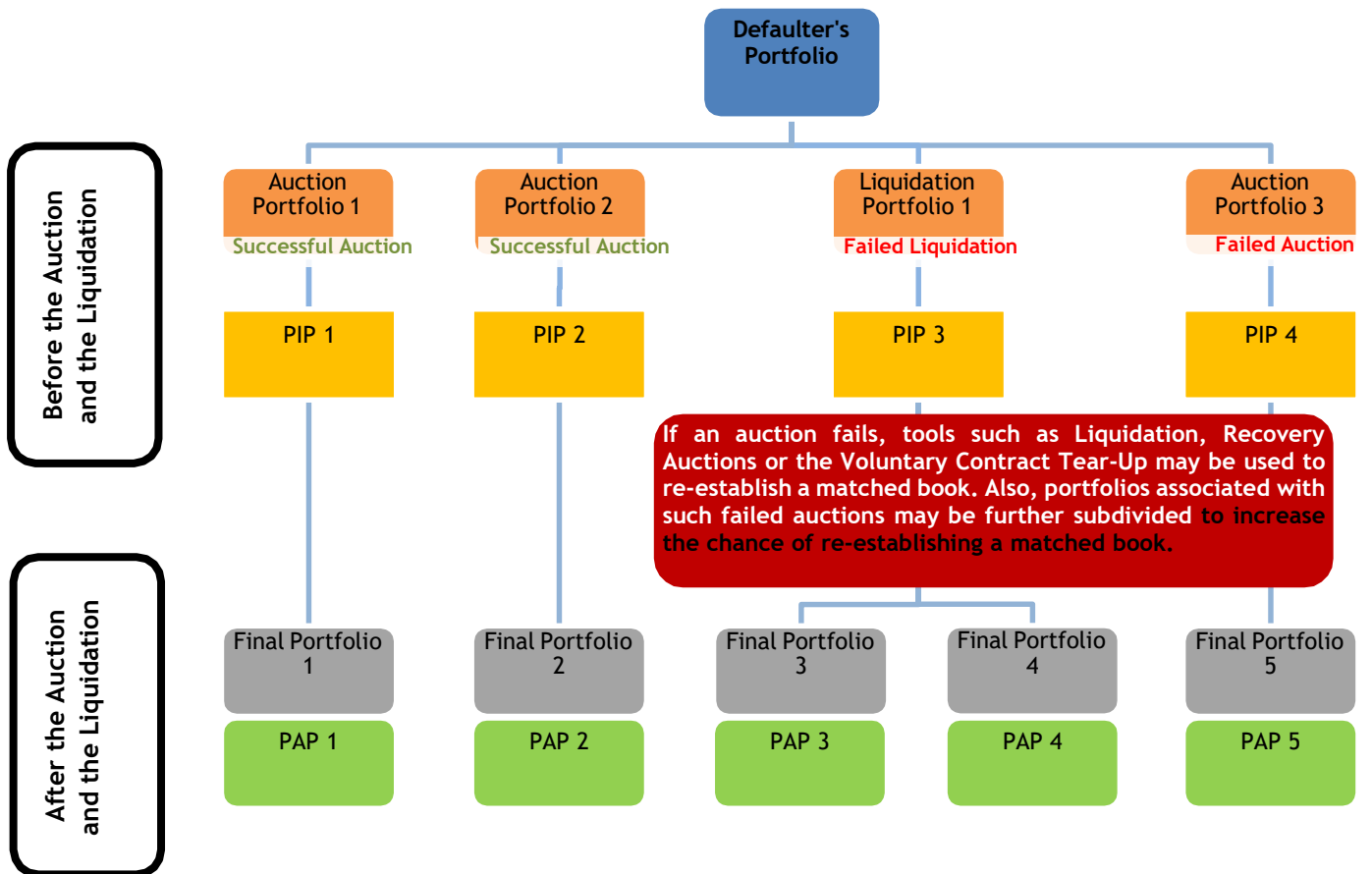
Upon the declaration of a Recovery Process, the Corporation will notify all Clearing Members, the applicable Exchanges, all regulatory organizations or agencies having oversight of the Corporation, the Bank of Canada and any such other Entities that the Corporation considers appropriate.

As it is the case while the Corporation is managing a default pre-Recovery Process, appropriate and timely communication will be maintained between CDCC, the Board, its Risk Management Advisory Committee and its regulators.

4.5 Recovery Loss Allocation Methodology

The Corporation's capacity to absorb losses increases with the addition of the Recovery Powers. The loss allocation methodology that starts with the application of the available resources of the Default Waterfall, as described in Sub-section 1.6, is supplemented by any financial resources arising from the Reduced Amounts Distribution and then the Recovery Loss Cash Payments. However, in extinguishing default-related losses, CDCC must use the financial resources in the prescribed order, as described in Appendix 2.

In the event that the Corporation is later able to recover from the suspended Clearing Member any amount, such amount shall be returned to the other Clearing Members to compensate for any amount charged to them and for the financial resources levied from them as part of the Recovery Process in the reverse order that these were used to cover the Recovery Losses.



Appendix 1: Allotment of Prefunded Financial Resources to Portfolio Incentives Pools (“PIPs”)

Before conducting an auction, the Corporation will calculate and allot, on a preliminary basis, the Prefunded Financial Resources to each Portfolio Incentive Pool (“PIP”) related to each Auction Portfolio or Liquidation Portfolio.

A PIP represents a pool of financial resources allotted by CDCC to one specific portfolio to be auctioned or liquidated.

This step will allow CDCC to:

- Estimate the amount of Prefunded Financial Resources available to extinguish losses for each portfolio; and
- Inform each Eligible Clearing Member of the portion of its Clearing Fund Requirement attributed to each Auction Portfolio which could be at risk of being used to extinguish losses.

The Prefunded Financial Resources will be preliminarily allotted to each PIP, based on the proportion of the Base Initial Margin of each portfolio of the suspended Clearing Member to the aggregate Base Initial Margin of all portfolios of the suspended Clearing Member. The allotment methodology for each Prefunded Financial Resources with respect to Core Products and Proprietary Swap Transactions is described below:

I. Suspended Clearing Member’s resources

The suspended Clearing Member’s resources shall be allotted to each PIP pro rata, based on the proportion of the Base Core Initial Margin or Base Swap Margin of such PIP to the aggregate Base Core Initial Margin or Base Swap Margin, as applicable, of all PIPs in respect of Core Products or Proprietary Swap Transactions, as applicable.

II. CDCC Default Risk Capital (“DRC”)

The financial resources of CDCC’s DRC shall be allocated between Core Products and Proprietary Swap Transactions based on the proportion of each of Base Core Initial Margin and Base Swap Margin to the aggregate of Base Core Initial Margin and Base Swap Margin. In the case of a cross default, they shall be allocated to each PIP pro rata, based on (i) the proportion of the aggregate Base Core Initial Margin to the aggregate Base Swap Margin, and (ii) the proportion of the Base Core Initial Margin or Base Swap Margin of such PIP to the aggregate Base Core Initial Margin or Base Swap Margin, as applicable, of all PIPs in respect of Core Products or Proprietary Swap Transactions, as applicable.

III. Surviving Clearing Members Clearing Fund Requirements

As a first step, the Corporation shall calculate the proportion of each surviving Clearing Member’s Clearing Fund Requirement attributed to each asset class, based on the proportion of each Clearing Member’s applicable Base Initial Margin for such asset class to the aggregate Base Core Initial Margin or Base Swap Margin, as applicable, of such Clearing Member.

In a second step, for each asset class, the Corporation shall further sub-divide the amount of Clearing Fund Requirement obtained in the first step above, pro rata, based on the proportion of each PIP’s Base Initial Margin to the aggregate Base Initial Margin of all PIPs of that asset class.

Appendix 2: Loss Allocation Methodology

This appendix describes how the Corporation will allocate losses amongst Clearing Members and CDCC, or, in other words, what resources will be used to extinguish losses. As outlined in Subsections 1 and 2 below, the loss allocation methodology differs depending on the type of financial resources used to extinguish losses, e.g. CDCC Default Risk Capital, Clearing Fund Requirements, etc.

This loss allocation process can only be done after the end of the Default Management Period, when losses are known. These losses include all default related obligations, costs or expenses, incurred or sustained by the Corporation in connection with the administration, auction, closing-out, liquidation, hedging, financing or transfer of positions or collateral, provided that such losses shall be determined separately in respect of Core Products and Proprietary Swap Transactions.

The final loss allocation process does not take into account the preliminary allotment of financial resources and PIP as described in Appendix 1, which is performed for information purposes only.

The loss allocation methodology is based on the four following steps:

1. Determination the composition of each Final Portfolio
 2. Creation of the Portfolio Allocation Pools (“PAPs”)
 3. Determination of the amount of losses for each PAP
 4. Allocation of financial resources to each PAP
- I. **Determination of the composition of each Final Portfolio**

The Corporation shall first group together a suspended Clearing Member’s positions which have been closed-out together, whether as an Auction Portfolio, a Liquidated Portfolio or a group of torn-up positions (each, a “Final Portfolio”).

The Final Portfolio shall only be composed of eligible positions of three distinct portfolios for the suspended Clearing Member (Firm, GCM Regime and Non-GCM Regime) and of the same asset class, except for any positions from other asset classes which have been added by CDCC for hedging purpose. For Proprietary Swap Transactions, the Final Portfolio shall only be composed of Firm positions.

II. **Creation of a PAP**

For each Final Portfolio, a Portfolio Allocation Pool shall be created. A PAP represents, in relation to a Final Portfolio, a pool of losses that arose in connection with such Final Portfolio and financial resources (allocated by the Corporation) to extinguish such losses.

III. **Determination of the losses associated with each PAP**

For each PAP, the Corporation shall determine what are the losses related to the Final Portfolio, based on the specific losses, expenses and obligations associated with the Default Management Process of such Final Portfolio. For example, for a specific Auction Portfolio which has been successfully auctioned, the direct cost of the auction shall be attributed to its PAP, i.e. the bid amount.

Costs that are generated in the Default Management Process of multiple Final Portfolios and shared between them, should be proportionally allocated to PAPs related to these Final Portfolios.

IV. **Allocation of financial resources to each PAP**

Once all losses are allocated to all PAPs, the next step is to allocate financial resources to these PAPs to extinguish the losses in a pre-established manner. The sub-sections below provide the detailed methodology to allocate financial resources to each PAP.

1. Default Waterfall Resources

In each PAP, the Corporation will allocate the financial resources contained in the Default Waterfall in the following order:

a) Suspended Clearing Member's resources

Step 1. The Corporation shall allocate the suspended Clearing Member's resources to each PAP pro rata, based on the proportion of the PAP's Base Core Initial Margin to the aggregate Base Core Initial Margin of all PAPs in respect of Core Products or the proportion of the PAPs Base Swap Margin to the aggregate Base Swap Margin of all PAPs in respect of Proprietary Swap Transactions, as applicable.

Step 2. In each PAP, the Corporation shall extinguish the losses with the allocated suspended Clearing Member's resources.

Step 3. For each asset class, if there remains a loss in a PAP after the allocation of the suspended Clearing Member's resources, while there is still an excess of resources in other PAPs, the Corporation will use such excess to extinguish the outstanding losses. This will be performed by allocating the aggregate excess resources of the suspended Clearing Member pro rata, based on the proportion of (1) the Base Initial Margin of each PAP where the allocated suspended Clearing Member's resources have proven insufficient to cover their respective losses, to (2) the aggregate Base Initial Margin of all PAPs of that asset class where the allocated suspended Clearing Member's resources have proven insufficient to cover their respective losses.

Step 4. Across all asset classes, if there remains a loss in a PAP after the allocation of the suspended Clearing Member's resources, while there is still an excess of resources in other PAPs, the Corporation will use such excess to extinguish the outstanding losses. This will be performed by allocating the aggregate excess resources of the suspended Clearing Member's pro rata, based on the proportion of (1) the Base Initial Margin of each PAP where the allocated suspended Clearing Member's resources have proven insufficient to cover their respective losses, to (2) the aggregate Base Initial Margin of all PAPs, across all asset classes, where the allocated suspended Clearing Member's resources have proven insufficient to cover their respective losses.

Suspended Clearing Member's resources should be fully exhausted across all PAPs and all asset classes before applying CDCC Default Risk Capital to cover losses as described below. If the suspended Clearing Member's resources have proven sufficient to CDCC DRC extinguish all the outstanding losses, the loss allocation mechanism is deemed completed.

CDCC will first use suspended Clearing Member resources of Core Products or Proprietary Swap Transactions, as applicable, to cover the losses related to Core Products or Proprietary Swap Transactions, as applicable. Any remaining excess suspended Clearing Member resources within Core Products will then be used to cover outstanding losses related to Proprietary Swap Transactions and any remaining excess suspended Clearing Member resources within Proprietary Swap Transactions will then be used to cover outstanding losses related to Core Products.

b) CDCC DRC

Step 1. In the case of cross default, CDCC shall allocate CDCC DRC between Core Products and Proprietary Swap Transactions based on the proportion of each of Base Core Margin and Base Swap Margin to the aggregate of Base Core Initial Margin and

Base Swap Margin. CDCC shall further allocate the financial resources of CDCC's DRC within Core Products and Proprietary Swap Transactions to each respective PAP pro rata, based on the proportion of such PAP's Base Core Initial Margin or Base Swap Margin to the aggregate Base Core Initial Margin or Base Swap Initial Margin of all PAPs.

- Step 2. In each PAP, the Corporation shall extinguish the loss with the allocated CDCC DRC.
- Step 3. For each asset class, if there remains a loss in a PAP after the allocation of CDCC DRC, while there is still an excess of resources in other PAPs, the Corporation will use such excess to extinguish the outstanding losses. This will be performed by allocating the aggregate excess resources of CDCC DRC pro rata, based on the proportion of (1) the Base Initial Margin of each PAP where the allocated CDCC DRC has proven insufficient to cover their respective losses, to (2) the aggregate Base Initial Margin of all PAPs of that asset class where the allocated CDCC DRC has proven insufficient to cover their respective losses.
- Step 4. Across all asset classes, if there remains a loss in a PAP after the allocation of CDCC DRC, while there is still an excess of resources in other PAPs, the Corporation will use such excess to extinguish the outstanding losses. This will be performed by allocating the aggregate excess CDCC DRC pro rata, based on the proportion of (1) the Base Initial Margin of each PAP where the CDCC DRC has proven insufficient to cover their respective losses, to (2) the aggregate Base Initial Margin of all PAPs, across all asset classes, where the allocated CDCC DRC has proven insufficient to cover their respective losses.

CDCC DRC should be fully exhausted across all PAPs and all asset classes before allocating the surviving Clearing Members' Clearing Fund Requirements to cover losses as described below. If the CDCC DRC has proven sufficient to extinguish all the outstanding losses, the loss allocation mechanism is deemed completed.

c) Surviving Clearing Members' Clearing Fund Requirements

Step 1. Initial Allocation

Sub-Step 1. CDCC shall allocate the surviving Clearing Members' Clearing Fund Requirements to each PAP for Core Products and Proprietary Swap Transaction in the following manner:

- As a first step, the Corporation shall calculate the portion of each surviving Clearing Member's Clearing Fund Requirement attributed to each asset class pro rata, based on the proportion of each Clearing Member's Base Initial Margin for such asset class relative to the aggregate Base Initial Margin of such Clearing Member; and
- In a second step, for each asset class, the Corporation shall further sub-divide the amount of Clearing Fund Requirement obtained in the first step above, pro rata, based on the proportion of each PAP's Base Initial Margin on the aggregate Base Initial Margin of all PAPs of that asset class.

Sub-Step 2. In each PAP, CDCC will extinguish the outstanding losses pro rata, based on the proportion of (1) each Clearing Member's Clearing Fund Requirement allocated to such PAP, to (2) the aggregate Clearing Fund Requirements of all Clearing Members allocated to

such PAP, with the use of allocated surviving Clearing Members' Clearing Fund Requirements calculated in Sub-Step 1.

- However, for PAPs related to Final Portfolios that were successfully auctioned, the loss allocation shall be subject to the subordination of each surviving Clearing Member's Clearing Fund Requirement based on such Clearing Member's bidding behavior in the PAPs where the loss is absorbed (please refer to Appendix 3-Bidding Incentives).

Step 2. Intra-Class Allocation

Sub-Step 1. For each asset class, if there remains a loss in a PAP after the allocation of the surviving Clearing Members' Clearing Fund Requirements, while there is still an excess of resources in other PAPs, such outstanding losses will be extinguished by these excess surviving Clearing Members' Clearing Fund Requirements. This will be performed by allocating, for each Clearing Member its aggregated excess Clearing Fund Requirements pro rata, based on the proportion of (1) the Base Initial Margin of each PAP in such asset class where the allocated surviving Clearing Members' Clearing Fund Requirements have proven insufficient to cover their respective losses, to (2) the aggregate Base Initial Margin of all PAPs of that asset class where the allocated surviving Clearing Members' Clearing Fund Requirements have proven insufficient to cover their respective losses.

Sub-Step 2. In each PAP, CDCC will extinguish the outstanding losses pro rata of (1) each Clearing Member excess Clearing Fund Requirement allocated to such PAP, on (2) the aggregate allocated excess Clearing Fund Requirements of all Clearing Members allocated to such PAP, with the allocated excess surviving Clearing Members' Clearing Fund Requirements calculated in Sub-Step 1.

- However, for PAPs related to Final Portfolios that were successfully auctioned, the loss allocation shall be subject to the subordination of each surviving Clearing Member's Clearing Fund Requirement based on such Clearing Member's bidding behavior in the PAPs where the loss is absorbed (please refer to Appendix 3-Bidding Incentives).

Step 3. Inter-Class Allocation

Sub-Step 1. Across all asset classes, if there remains a loss in a PAP after the allocation of the surviving Clearing Members' Clearing Fund Requirements, while there is still an excess of resources in other PAPs, those outstanding losses will be extinguished by these excess surviving Clearing Members' Clearing Fund Requirements. This will be performed by allocating, for each Clearing Member, its aggregated excess Clearing Fund Requirements pro rata, based on the proportion of (1) the Base Initial Margin of each PAP where the allocated surviving Clearing Members' Clearing Fund Requirements have proven insufficient to cover their respective losses, to (2) the aggregate Base Initial Margin of all PAPs, across all asset classes, where the allocated surviving Clearing Members' Clearing Fund Requirements have proven insufficient to cover their respective losses.

Sub-Step 2. In each PAP, CDCC will extinguish the outstanding losses pro rata of (1) each Clearing Member allocated excess Clearing Fund Requirement to such PAP, on (2) the aggregate allocated excess Clearing Fund Requirements of all Clearing Members to such PAP with the allocated excess surviving Clearing Members' Clearing Fund Requirements calculated in Sub-Step 1.

- Surviving Clearing Members' Clearing Fund Requirements should be fully exhausted across all PAPs and all asset classes before allocating the 2nd surviving Clearing Members' Clearing Fund Requirements to cover losses as described below. If the surviving Clearing Members' Clearing Fund Requirements have proven sufficient to extinguish all the outstanding losses, the loss allocation mechanism is deemed completed.

d) 2nd surviving Clearing Members' Clearing Fund Requirements

The methodology for allocating the 2nd surviving Clearing Members' Clearing Fund Requirements to each PAP shall follow the same allocation methodology used for the allocation of the surviving Clearing Members' Clearing Fund Requirements and described in the previous Section 1(c).

e) Loss Allocation across Services

CDCC will first use the surviving Clearing Members' Clearing Fund contributions, in respect of Core Products, to cover outstanding losses in respect of Core Products and surviving Clearing Members' Clearing Fund contributions, in respect of Proprietary Swap Transactions, to cover outstanding losses in respect of Proprietary Swap Transaction. Any remaining excess Clearing Fund contributions within will then be used to cover outstanding losses related to Proprietary Swap Transactions or Core Products, as applicable.

2. Recovery Power Resources

In the event that a Recovery Process has been declared by CDCC and that Recovery Powers are used to extinguish uncovered losses, the loss allocation methodology provides for the usage of financial resources levied by the RAD and the Recovery Loss Cash Payment after the application of the Default Waterfall.

a) Retained Amounts

Step 1. Initial Allocation

Sub-Step 1. CDCC shall allocate the sum of Retained Amounts to each PAP, in the following manner:

- As a first step, the Corporation shall calculate the portion of each surviving Clearing Member's Retained Amounts attributed to each asset class, based on the proportion of each Clearing Member's Base Initial Margin for such asset class to the aggregate Base Core Initial Margin or Base Swap Margin, as applicable, of such Clearing Member; and
- In a second step, for each asset class, the Corporation shall further sub-divide each Clearing Member Retained Amounts obtained in the first step above pro rata, based on the proportion of the Base Initial Margin for each PAP in that asset class to the aggregate Base Initial Margin of all PAPs of that asset class. Provided however that, in the case of the suspension of more than one Clearing Member, any LCM Retained Amounts withheld in connection with the suspension of one

Clearing Member shall only be allocated to PAPs in relation to the same suspended Clearing Member.

Sub-Step 2. In each PAP, CDCC will extinguish the outstanding losses pro rata, based on the proportion of (1) each Clearing Member's Retained Amounts allocated to such PAP, to (2) the aggregate Retained Amounts of all Clearing Members allocated to such PAP, with the use of the allocated Retained Amounts calculated in Sub-Step 1.

Step 2. Intra-Class Allocation

Sub-Step 1. For each asset class, if there remains a loss in a PAP after the allocation of the Retained Amounts, while there is still an excess of resources in other PAPs, such outstanding losses will be extinguished by these excess Retained Amounts. This will be performed by allocating, for each Clearing Member, its aggregated excess Retained Amounts pro rata, based on the proportion of (1) the Base Initial Margin of each PAP where the allocated Retained Amounts have proven insufficient to cover their respective losses, to (2) the aggregate Base Initial Margin of all PAPs of that asset class where the allocated Retained Amounts have proven insufficient to cover their respective losses.

Sub-Step 2. In each PAP, CDCC will extinguish the outstanding losses pro rata of (1) each Clearing Member's excess Retained Amounts allocated to such PAP, on (2) the aggregate excess Retained Amounts of all Clearing Members allocated to such PAP, with the use of the allocated excess Retained Amounts calculated in Sub-Step 1. Provided however that, in the case of the suspension of more than one Clearing Member, any LCM Retained Amounts withheld in connection with the suspension of one Clearing Member shall only be allocated to PAPs in relation to the same suspended Clearing Member.

Step 3. Inter-Class Allocation

Sub-Step 1. Across all asset classes, if there remains a loss in a PAP after the allocation of the Retained Amounts, while there is still an excess of resources in other PAPs, those outstanding losses will be extinguished by these excess Retained Amounts. This will be performed by allocating, for each Clearing Member, its aggregated excess Retained Amounts pro rata, based on the proportion of (1) the Base Initial Margin of each PAP where the allocated Retained Amounts have proven insufficient to cover their respective losses, to (2) the aggregate Base Initial Margin of all PAPs, across all asset classes, where the allocated Retained Amounts have proven insufficient to cover their respective losses. Provided however that, in the case of the suspension of more than one Clearing Member, any LCM Retained Amounts withheld in connection with the suspension of one Clearing Member shall only be allocated to PAPs in relation to the same suspended Clearing Member.

For further clarity, the Inter-Class Allocation methodology permits the use of any Retained Amounts levied from any Clearing Member, without regard to the asset class that such Clearing Member's membership covers, to be used to absorb losses stemming from any PAP in any asset class. This implies that Retained Amounts levied from any LCM or another

Fixed Income Clearing Member may be allocated to PAPs of Futures or Options asset classes.

Sub-Step 2. In each PAP, CDCC will extinguish the outstanding losses on pro rata of (1) each Clearing Member allocated excess Retained Amounts to such PAP, on (2) the aggregate excess Retained Amounts of all Clearing Members to such PAP, with the use of the allocated excess Retained Amounts calculated in Sub-Step 1.

- Subject to the requirement that LCM Retained Amounts in connection with the suspension of one Clearing Member be used only to absorb losses incurred by the Corporation in relation to the same suspended Clearing Member, in the case of the suspension of more than one Clearing Member, Retained Amounts should be fully exhausted across all PAPs and all asset classes before allocating the Recovery Loss Cash Payment to cover losses as described below. If the Retained Amounts have proven sufficient to extinguish all the outstanding losses, the loss allocation mechanism is deemed completed.

Step 4. Loss Allocation across Services

CDCC will first use the surviving Clearing Members' RAD in respect of Core Products to cover outstanding losses in respect of Core Products and surviving Clearing Members' RAD in respect of Proprietary Swap Transactions to cover outstanding losses in respect of Proprietary Swap Transaction. Any remaining excess RAD within a service will then be used to cover outstanding losses related to Proprietary Swap Transactions or Core Products, as applicable.

b) Recovery Loss Cash Payment

After the complete exhaustion of Retained Amounts, the outstanding losses across all PAPs are extinguished with the Recovery Loss Cash Payment pro rata, based on the proportion of each surviving Clearing Member's Clearing Fund Requirement to the aggregate Clearing Fund Requirements of all Clearing Members.

3. **Low-bidders & MPR not met:** Eligible Clearing Members that submitted a higher bid relative to the best bid submitted, however the bid size is not met the MPR.
 4. **High-bidder & MPR not met:** The bidder(s) who submitted the best bid but did not meet the MPR.
 5. **Low-bidder & MPR met:** Eligible Clearing Members that submitted a higher bid relative to the best bid with the bid size is equal or above MPR predetermined.
 6. **High-bidder & MPR met:** The bidder(s) who submitted the best bid in addition to bid size is equal or above MPR predetermined.
- B. Loss Allocation Methodology:**

After the categorization of the Eligible Clearing Members based on their bidding behavior, losses are first allocated and then extinguished with the surviving Clearing Members' Clearing Fund Requirements within each category of bidders in the following order:

1. **Non-bidders:**

For each PAP, after the exhaustion of CDCC DRC, the total amount of outstanding losses, shall be extinguished pro rata, based on the proportion of (1) its Clearing Fund Requirements in respect of such PAP, to (2) the aggregate amount of Non-bidders' Clearing Fund Requirements in respect of such PAP, with the use of each Non-bidder's resources as calculated in Appendix 2:

$$\frac{AA\#\#\#\#\#\#\#\#\#Aoo_PPPAAPPA\#\#\#\#\#NNAoo_BB\#\#\#\#\#\#\#\#\#CCCC\#\#\#\#}{\sum \quad CCCC_{NNNN_CCCC}}$$

Where:

$CCCC_{NNNN_CCCCC}$ is the Clearing Fund Requirements of the Non-bidder Clearing Member i that is allocated to a PAP.

Within each PAP, all Non-bidders' Clearing Fund Requirements should be fully exhausted before applying Low-bidders' Clearing Fund Requirements to cover losses as described below.

2. **Low-bidders & MPR not met:**

For each PAP with outstanding losses, the total amount of associated losses shall be extinguished based on its bid variance in respect of the winning bid, with the use of each Low-bidder & MPR not met's resources. In other terms, losses are allocated to each Low-bidder & MPR not met pro rata, based on the proportion of (1) the difference between its provided bid and the best bid in respect of such PAP ("Bid Variance"), to (2) the sum of all Low-bidder & MPR not met's Bid Variances in respect of such PAP:

$$AA\text{AAAAAAAAAAAA}oo_PPPPA\text{PPAAAAA_LLAALL} \text{ } bbA\text{BBBBBBPP} \text{ } \&\&PPMM \text{ } ooAAAA \text{ } mmB\text{AA_CCCC} = \frac{BBBBB_{\text{LNN}\&\text{NCC_CCCC}} - BBBB_{\text{N}\text{Nw}BBB}}{\sum (BBBBB_{\text{LNN}\&\text{NCC_CCCC}} - BBBB_{\text{N}\text{Nw}BBB})}$$

Where:

$BBBBBBLLNN\&NNCC\ CCCCCC$ is the provided bid of the Low-bidder & MPR not met Clearing Member i ; and

$BBBBBB_{NNwwBBBB}$ is the best bid for the auction.

Within each PAP, all Low-bidders & MPR not met's Clearing Fund Requirements should be fully exhausted before applying High-bidders & MPR not met's Clearing Fund Requirements to cover losses as described below.

Therefore, if there remains a loss after the first loss allocation to the Low-bidders & MPR not met's Clearing Fund Requirements, while there are still some Clearing Members in the Low-bidders & MPR not met category with excess resources, such outstanding losses will be extinguished with the use of those excess Clearing Fund Requirements according to the same allocation methodology described in this Low-bidders & MPR not met Section. Such procedure shall be repeated until all the Low-bidders & MPR not met's Clearing Fund Requirements are exhausted.

3. High-bidders & MPR not met:

For each PAP with outstanding losses, the total amount of associated losses shall be extinguished pro rata, based on the proportion of (1) its Clearing Fund Requirement in respect of such PAP, to (2) the aggregate amount of High-bidders & MPR not met's Clearing Fund Requirements in respect of such PAP with the use of each High-bidder & MPR not met's resources:

$$AA\text{HHHHHHHHH}AAo_PPPPA\text{PPAAAA} _HH\text{HHH}h_BB\text{BBBBBBPP} \& \text{CCPPMM } oo\text{AAAA } mm\text{BBA_CCCC} = \frac{CCCC_{HHNN\&NNCC_CCCC}}{\sum CCCC_{HHNN\&NNCC_CCCC}}$$

Where:

$CCCC_{HHNN\&NNCC_CCCC}$ is the Clearing Fund Requirements of the High-bidder & MPR not met Clearing Member i that is allocated to a PAP.

4. Low-bidders & MPR met:

For each PAP with outstanding losses, the total amount of associated losses shall be extinguished based on its bid variance in respect of the winning bid, with the use of each Low-bidders & MPR met's resources. In other terms, losses are allocated to each Low-bidder pro rata, based on the proportion of (1) the difference between its provided bid and the best bid in respect of such PAP ("Bid Variance"), to (2) the sum of all Low-bidders & MPR met's Bid Variances in respect of such PAP:

$$AA\text{HHHHHHHHH}AAo_PPPPA\text{PPAAAA} _LL\text{AALL_BB\text{BBBBBBPP} \& \text{CCPPMM } mm\text{BBA_CCCC} = \frac{BBBBB_{LLNN\&CC_CCCC} - BBBB_{wwBBBB}}{\sum (BBBBB_{LLNN\&CC_CCCC} - BBBB_{wwBBBB})}$$

Where:

$BBBBB_{LLNN\&CC_CCCC}$ is the provided bid of the Low-bidder & MPR met Clearing Member i ; and

$BBBBB_{wwBBBB}$ is the best bid for the auction.

Within each PAP, all Low-bidders & MPR met's Clearing Fund Requirements should be fully exhausted before applying High-bidders & MPR met's Clearing Fund Requirements to cover losses as described below.

Therefore, if there remains a loss after the first loss allocation to the Low-bidders & MPR met's Clearing Fund Requirements, while there are still some Clearing Members in the Low-Bidders & MPR met category with excess resources, such outstanding losses will be extinguished with the use of those excess Clearing Fund Requirements according to the same allocation methodology described

in this Low-bidders & MPR met Section. Such procedure shall be repeated until all the Low-bidders & MPR met's Clearing Fund Requirements are exhausted.

5. **High-bidders & MPR met:**

For each PAP with outstanding losses, the total amount of associated losses shall be extinguished pro rata, based on the proportion of (1) its Clearing Fund Requirement in respect of such PAP, to (2) the aggregate amount of High-bidders & MPR met's Clearing Fund Requirements in respect of such PAP with the use of each High-bidder's resources:

$$AA_{HHNN&CC_CCCC} \cdot PPPA_{HHNN&CC_CCCC} \cdot HH_{HHNN&CC_CCCC} \cdot BB_{HHNN&CC_CCCC} \cdot CC_{HHNN&CC_CCCC} = \frac{CC_{HHNN&CC_CCCC}}{\sum CC_{HHNN&CC_CCCC}}$$

Where:

$CC_{HHNN&CC_CCCC}$ is the Clearing Fund Requirements of the High-bidder & MPR met Clearing Member i that is allocated to a PAP.

III. Loss Allocation to Non-Eligible Clearing Member:

Within a PAP in a specific asset class, Clearing Members (excluding Limited Clearing Members) who are not eligible to participate in the auction will be exposed to losses once all the surviving Clearing Members' Clearing Fund Requirements of Eligible Clearing Members allocated to such asset class have been exhausted. In other terms, non-Eligible Clearing Members will be exposed to losses in the Inter-Class Allocation step, i.e. when losses are extinguished across all asset classes, as described in Appendix 2, Section IV) 1. c) Step 3 Inter-Class Allocation.