



## NOTICE TO MEMBERS

No. 2015 – 096

August 14, 2015

### REQUEST FOR COMMENTS

#### AMENDMENTS TO THE CANADIAN DERIVATIVES CLEARING CORPORATION OPERATIONS MANUAL FOR THE PURPOSE OF MOVING THE AFTERNOON INTRA-DAY MARGIN PROCESS

##### Summary

On July 29, 2015, the Board of Directors of Canadian Derivatives Clearing Corporation (CDCC) approved amendments to the Operations Manual of CDCC. The purpose of the proposed amendment is to move the start time of the Afternoon Intra-Day Margin Call process from the existing 1:15 p.m. start to 12:45 p.m. Eastern Time (ET) to ensure that Clearing Members have a one (1) hour window to address discretionary margin call shortfalls with collateral prior to CDCC moving Canadian cash via Large Value Transfer System (LVTS) to cover Clearing Member's obligations.

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 is 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 Rules and Operations Manual of CDCC. Amendments are submitted to the AMF in accordance with the self-certification process and the Ontario Securities Commission in accordance with the process provided in its Recognition Order.

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##### Canadian Derivatives Clearing Corporation

The Exchange Tower  
130 King Street West, 5<sup>th</sup> Floor  
Toronto, Ontario  
M5X 1J2  
Tel. : 416-367-2470

800 Victoria Square  
3<sup>rd</sup> Floor  
Montréal, Québec  
H4Z 1A9  
Tel. : 514-871-3545

[www.cdcc.ca](http://www.cdcc.ca)



Comments on the proposed amendments must be submitted within 30 days following the date of publication of the present notice. Please submit your comments to:

*Mr. Jacques Guvlekjian*  
*Legal Counsel*  
*Canadian Derivatives Clearing Corporation*  
*Tour de la Bourse*  
*P.O. Box 61, 800 Victoria Square*  
*Montréal, Québec H4Z 1A9*  
*E-mail: [legal@m-x.ca](mailto:legal@m-x.ca)*

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

*Mrs. Anne-Marie Beaudoin*  
*Corporate Secretary*  
*Autorité des marchés financiers*  
*Tour de la Bourse, P.O. Box 246*  
*800 Victoria Square, 22<sup>nd</sup> Floor*  
*Montréal, Québec H4Z 1G3*  
*E-mail: [consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)*

*Manager, Market Regulation*  
*Market Regulation Branch*  
*Ontario Securities Commission*  
*Suite 2200,*  
*20 Queen Street West*  
*Toronto, Ontario, M5H 3S8*  
*Fax: 416-595-8940*  
*email: [marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca)*

For any question or clarification, Clearing Members may contact CDCC's Corporate Operations.

Glenn Goucher  
President and Chief Clearing Officer



**AMENDMENTS TO THE CANADIAN DERIVATIVES CLEARING CORPORATION OPERATIONS  
MANUAL FOR THE PURPOSE OF MOVING THE AFTERNOON INTRA-DAY MARGIN PROCESS RUN**

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## **I. SUMMARY**

CDCC is proposing to move the start time of the Afternoon Intra-Day Margin Call process from the existing 1:15 p.m. start to 12:45 p.m. Eastern Time (ET).

## **II. ANALYSIS**

### **a. Background**

CDCC's Corporate Operations department informs Clearing Members of margin shortfalls after each Intra-Day Margin Call process run. If, after one (1) hour, the Clearing Member is unable to collateralize the shortfall, CDCC will process a Large Value Transfer System (LVTS) payment to the clearinghouse on behalf of the Clearing Member.

CDCC's Settlement Account for holding Clearing Members' pledged Canadian cash is held at the Bank of Canada. CDCC must complete all its cash movements to this account prior to 3:00 p.m. ET. CDCC's cut-off time for Clearing Members to put up cash deposits and send in cash withdrawal requests is 2:45 p.m. ET. This allows CDCC fifteen (15) minutes to ensure that payments are processed before the 3:00 p.m. cash movements' deadline.

The timing for the start of CDCC's afternoon Intra-Day Margin Call process run was set to allow the above process to work smoothly. The following is the timeline that is currently followed:

- 1:15 p.m. to 1:30 p.m. ET – Afternoon Intra-Day Margin Call process runs.
- 1:30 p.m. ET – Afternoon Intra-Day Margin Call process completed.
- 1:30 p.m. to 1:45 p.m. ET – CDCC notifies Clearing Members of Intra-Day Margin Call shortfalls.
- 2:45 p.m. ET – Deadline for Clearing Members to meet their Intra-Day Margin Call shortfalls.
- 2:45 p.m. ET – Deadline for Clearing Members to put up cash deposits and send in cash withdrawal requests.

In May 2015, CDCC activated a number of changes to address the gaps identified in its observance of the Principles for Financial Market Infrastructure. CDCC addressed the following two gaps:

- Mismatch Settlement Risk, and
- Intra-Day Variation Margin Risk

with the use of the Discretionary Margin Call process, which is reliant on the output of the 1:15 p.m. ET Afternoon Intra-Day Margin Call process.

When the 1:15 p.m. output is available, CDCC runs the Discretionary Margin Call process to determine whether discretionary margin is required by any of its Clearing Members. CDCC then notifies concerned Clearing Members of Discretionary Margin Call shortfalls.

As with all margin calls, CDCC wishes to ensure that Clearing Members have a one (1) hour window to address discretionary margin call shortfalls with collateral; however, operationally, CDCC has been challenged to issue the Discretionary Margin Call to Clearing Members by 1:45 p.m.

CDCC is proposing the following changes:

- 12:45 p.m. to 1:00 p.m. ET – Afternoon Intra-Day Margin Call process runs.
- 1:00 p.m. ET – Afternoon Intra-Day Margin Call process completed.
- 1:00 p.m. to 1:15 p.m. ET – CDCC notifies Clearing Members of intra-day margin call shortfalls.
- 1:00 p.m. to 1:15 p.m. ET – Discretionary Margin Call process runs.
- 1:15 p.m. to 1:30 p.m. ET – CDCC notifies concerned Clearing Members of discretionary margin call shortfalls.
- 2:15 p.m. ET – Deadline for Clearing Members to meet intra-day margin call shortfalls.
- 2:30 p.m. ET – Deadline for concerned Clearing Members to meet discretionary margin call shortfalls.
- 2:45 p.m. ET – Deadline for Clearing Members to put up cash deposits and send in cash withdrawal requests.

#### **b. Description and Analysis of Impacts**

CDCC does not believe there will be any impacts to the Clearing Members by moving the Afternoon Intra-Day Margin Call process 30 minutes earlier.

#### **c. Proposed Amendments**

See Appendix 1.

#### **d. Benchmarking**

Not applicable.

### **III. PRIMARY MOTIVATION**

CDCC's primary objective for the proposed amendments is to ensure that Clearing Members have a one (1) hour window to address discretionary margin call shortfalls with collateral prior to CDCC moving Canadian cash via LVTS to cover Clearing Members' obligations. In addition, with the amendments, CDCC would have an operational schedule that would be consistently met.

#### **IV. IMPACTS ON TECHNOLOGICAL SYSTEMS**

There are no technology changes required for these amendments. The timing of the Intra-Day Margin Call processes is based on a parameter within the Canadian Derivatives Clearing Service (SOLA-C component).

#### **V. OBJECTIVES OF THE PROPOSED AMENDMENTS**

CDCC's primary objective for the proposed amendments is to ensure that Clearing Members have a one (1) hour window to address discretionary margin call shortfalls with collateral prior to CDCC moving Canadian cash via LVTS to cover Clearing Members' obligations. In addition, with the amendments, CDCC would have an operational schedule that would be consistently met.

A secondary objective is to ensure that CDCC is not faced with a situation where a cash deposit is required after 3:00 p.m. ET to address a Clearing Member's discretionary margin call shortfall. If this were to occur, CDCC would be in a situation where the Clearing Member's deposit would be held overnight at a private bank.

#### **VI. PUBLIC INTEREST**

In CDCC's opinion, the proposed amendments are not contrary to public interest. The Afternoon Intra-day Margin Call process will be thirty (30) minutes earlier than it is currently. As part of the proposed amendments, the deadline for Specific Deposits withdrawals must also change as this process is linked to the Afternoon Intra-day Margin Call process.

#### **VII. MARKET IMPACTS**

With these amendments, CDCC would have an operational schedule that would be consistently met.

#### **VIII. PROCESS**

The proposed amendments will be submitted to the CDCC Board for approval. After approval has been obtained, the proposed amendments, including this analysis, will be sent to the Autorité des marchés financiers in accordance with the self-certification process, and to the Ontario Securities Commission in accordance with the "Rule Change Requiring Approval in Ontario" process. The proposed amendments and analysis will also be submitted for approval to the Bank of Canada in accordance with the Regulatory Oversight Agreement.

#### **IX. EFFECTIVE DATE**

CDCC would like to implement these amendments in the third (3<sup>rd</sup>) quarter of 2015.

**X. ATTACHED DOCUMENTS**

Appendix 1: Time Frames for On-Line Access – CDCC Operations Manual



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

**OPERATIONS MANUAL**

**VERSION OF ~~MAY 25~~, 2015**



## TIME FRAMES FOR ON-LINE ACCESS

### ON EVERY BUSINESS DAY

Activity	Deadlines
Settlement Time with respect to payments for overnight settlement	7:45 a.m.
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)	10:00 to 10:15 a.m.
Morning Net DVP Settlement Timeframe	10:15 to 10:30 a.m.
Morning Intra-Day Margin Call	10:30 a.m.
Afternoon Intra-Day Margin Call	<del>12:45</del> +15 p.m.
Specific Deposits (same day withdrawal)	<del>12:45</del> +15 p.m.
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)	2:00 to 2:15 p.m.
Cash Deposits (Margin Deposits) – under \$2,000,000 (same day deposit)	2:45 p.m.
Cash Deposits (Margin Deposits) – of and over \$2,000,000 (2 Business Days notice)	2:45 p.m.
Cash withdrawal requests (Margin Deposits) – under \$2,000,000 (same day withdrawal)	2:45 p.m.
Cash withdrawal requests (Margin Deposits) – of and over \$2,000,000 (2 Business Days notice)	2:45 p.m.
Fixed Income Transactions – (Same Day Transactions) – Submission Cut-Off Time	3:30 p.m.
All assets deposits other than cash (Margin Deposits)	3:30 p.m.
All assets withdrawal requests other than cash (Margin Deposits) for same day withdrawal	3:30 p.m.
All assets substitution requests other than cash (Margin Deposits) for same day substitution	3:30 p.m.
Specific Deposits (overnight valuation)	3:30 p.m.
End of Day DVP Settlement Time	4:00 p.m.
OTCI (other than Fixed Income Transactions) – Unmatched entry	4:30 p.m.
Position Transfers	5:25 p.m.
Same Day and T+1 Trade corrections	5:30 p.m.
Open Position changes	5:30 p.m.
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)

5:30 p.m.

**TIME FRAMES FOR ON-LINE ACCESS (continued)**

**ON EVERY BUSINESS DAY (continued)**

<b>Activity</b>	<b>Deadlines</b>
Futures – Request for Standard vs Mini Offset	5:00 p.m.
Futures – Tender Notices submission	5:30 p.m.
Options – Exercise Notices submission	5:30 p.m.
CDCC Clearing Application shutdown – Close of Business	5:30 p.m.
Fixed Income Transactions – available (next Business Day start)	7:00 p.m.
<b>Unsettled Item</b>	
Confirmation of settled items to be sent to CDCC	4:15 p.m.
<b>Daily Capital Margin Monitoring Calls</b>	
CDCC notifies Clearing Members of additional Margin required	9:30 a.m.
Clearing Member’s obligation to cover any deficit	12:00 (noon)
<b>Additional Margin for Intra-Day Variation Margin Risk</b>	
CDCC notifies Clearing Members of additional Margin required	1: <del>30</del> 45 p.m.
Clearing Member’s obligation to cover any deficit	2: <del>30</del> 45 p.m.
<b>Additional Charge for Mismatched Settlement Risk</b>	
CDCC notifies Clearing Members of additional Margin required	1: <del>30</del> 45 p.m.
Clearing Member’s obligation to cover any deficit	2: <del>30</del> 45 p.m.

**TIME FRAMES FOR ON-LINE ACCESS (continued on next page)**