

SUPP S-1—EXHIBIT F-1

Request: Attach a description of the clearing organization’s regulatory or compliance department, including its size, experience level, competencies, duties and responsibilities of staff.

Response:

CDCC does not have its own dedicated regulatory or compliance department. CDCC's regulatory affairs are managed by the legal department of TMX Group (TMX Legal), while member compliance is under the charge of both TMX Legal and CDCC Member Services. CDCC Member Services conducts on-going monitoring and surveillance of participants’ continuing financial eligibility. In this regard, CDCC collaborates with TMX Legal to monitor its members’ financial condition, reviewing members’ compliance with minimum capital requirements on a monthly basis. In addition, the adequacy of an applicant’s operational tools and resources are reviewed as part of the member admission process.

CDCC compliance monitoring is augmented through a Memorandum of Understanding (“MOU”) that CDCC has in place with the Investment Industry Regulatory Organization of Canada (“IIROC”), the Canadian self-regulatory authority. CDCC is able to share information on members’ financial status through the MOU and receives notices from the IIROC of any “Early Warning” triggers with respect to its members.

SUPP S-1—EXHIBIT F-2

Request: Attach a description of the clearing organization's rules and how they are enforced, with reference to any rules provided as part of Exhibit A-5 that require the clearing organization to comply with one or more of the RCCPs.

Response:

The key documents containing CDCC's rules are the By-Laws, Rules, and Operations Manual.¹

The CDCC By-Laws contain basic corporate information. This includes rules governing board meetings; specification of corporate officers; the protections afforded to directors, officers, employees, and committee members; the shares of the corporation; rules for shareholder meetings; and procedures for corporate notices.

The CDCC Rules contain the bulk of the governing rules. It includes sections covering membership; miscellaneous matters and business affairs; capital requirements; enforcement; disciplinary proceedings; clearing fund deposits; margin requirements; daily settlement; adjustments in contract terms. With respect to options, the Rules address clearing for exchange transactions; trade reporting; tender and assignment of exercise notices; delivery and payment for exercised options; and the contract specifications for the several types of options cleared. With respect to futures, the Rules address clearing of exchange transactions; trade reporting; settlement; delivery of underlying interests; and the contract specifications for the several types of futures contracts cleared. The Rules also provide details for the clearing of OTC instruments.

The CDCC Operations Manual contains various operational details, as well as a Risk Manual describing risk management systems, and a Default Manual describing systems and processes for managing the default of a clearing member. The Operations Manual covers details such as clearing time frames for various contracts; the types of reports that are available to members; trade processing; handling of open positions; exercises, tenders, assignments, and deliveries; settlement; margin processing; clearing fees; and the designation of clearing member security officers. The Risk Manual addresses the acceptability of underlying interests; margin calls when a member's potential loss exceeds its margin deposit; monitoring of credit risk; contributions to the clearing fund; forms of collateral for margin deposit and applicable haircuts; the monitoring program; adjustments in contract terms, and the default management process. The Default Manual describes the CDCC's possible course of action with respect to clearing members in financial difficulty, including management of a default situation, authority, communication with a clearing member, and implementation. It provides an overview of the default process; describes the governance process followed by the CDCC after a clearing member default; enumerates the actions taken by the CDCC throughout the course of default management; describes the financial resources employed; and describes the responsibilities of non-defaulting clearing members during the process.

Enforcement of the rules is described in Exhibit F-3.

¹ See Attachment 39, CDCC By-Laws; Attachment 40, CDCC Rules; Attachment 41, CDCC Operations Manual.

SUPP S-1—EXHIBIT F-3

Request: Attach the following, to the extent not included in Exhibit F-2:

A description of the clearing organization’s disciplinary rules, including but not limited to rules that address the following –

- (1) Disciplinary authority and procedures that empower staff to recommend and prosecute disciplinary actions for suspected rule violations and that provide the authority to fine, suspend, or expel any clearing participant pursuant to fair and clear standards.
- (2) The issuance of warning letters and/or summary fines for specified rule violations.
- (3) The review of investigation reports by a disciplinary panel or other authority for issuance of charges or instructions to investigate further, or findings that an insufficient basis exists to issue charges.
- (4) Disciplinary committees of the clearing organization that take disciplinary action via formal disciplinary processes.
- (5) Whether and how the clearing organization articulates its rationale for disciplinary decisions.
- (6) The sanctions for particular violations and a discussion of the adequacy of sanctions with respect to the violations committed and their effectiveness as deterrents to future violations.

Response:

I. Disciplinary authority and procedures that empower staff to recommend and prosecute disciplinary actions for suspected rule violations and that provide the authority to fine, suspend, or expel any clearing participant pursuant to fair and clear standards.

The CDCC Rules empower CDCC to prosecute rule violations and to impose appropriate sanctions.

The disciplinary systems are applied to a member when it becomes a “Non-Conforming Member.” The Rules specify a number of events that constitute reasonable grounds for concluding that a member has become Non-Conforming, including, for example, breach of the Application for membership or CDCC Rules, breach of the rules of an Exchange or other market institution, action by a regulatory agency, and default.¹ The Rules also allow the Board or Corporation to consider whether any other event affords reasonable grounds for determining that a Member has become Non-Conforming.²

¹ Attachment 40, CDCC Rules A-1A04.

² *Id.*

The Rules specify a number of actions that CDCC can take with respect to a Non-Conforming member.³ These actions include, for example, prohibiting or limiting the acceptance or clearing of transactions, requiring the member to close out transactions, requiring the transfer of positions or accounts to other clearing members, fines, reprimands, and suspension.⁴ If a Non-Conforming Member is suspended, at its next meeting following the calendar month of the suspension, the CDCC Board must decide whether to lift the suspension or terminate the membership of the Non-Conforming Member.⁵

II. The issuance of warning letters and/or summary fines for specified rule violations.

Generally, appropriate fines are determined by the Board or a Disciplinary Committee. Specified fines, though, are automatically imposed for late payments.⁶

III. The review of investigation reports by a disciplinary panel or other authority for issuance of charges or instructions to investigate further, or findings that an insufficient basis exists to issue charges.

All member violations and reports of investigations are reviewed by the CDCC Board of Directors.

IV. Disciplinary committees of the clearing organization that take disciplinary action via formal disciplinary processes.

The Board may delegate its disciplinary authority to a Disciplinary Committee.⁷ This Committee shall consist of at least three directors, and may include such officers as the Board may delegate.⁸

Before a sanction is imposed, CDCC must furnish the Non-Conforming Member with a concise written statement of charges.⁹ The statement 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 CDCC, and the penalty or remedy recommended by CDCC.¹⁰ After this statement is delivered, the Non-Conforming Member has ten days to file a written answer.¹¹ The answer shall admit or deny each allegation contained in the statement of charges, and may also contain any defenses.¹² A hearing must be scheduled as soon as reasonably practicable.¹³ At the hearing, the Non-Conforming Member must be afforded the opportunity to be heard, and can be represented by counsel.¹⁴ As soon as practicable after the hearing, the

³ See CDCC Rules, A-401(1).

⁴ *Id.*

⁵ CDCC Rules A-1A08.

⁶ See Attachment 41, Operations Manual § 7.

⁷ CDCC Rules, A-502(4).

⁸ *Id.*

⁹ CDCC Rules, A-502(1).

¹⁰ *Id.*

¹¹ CDCC Rules A-502(3).

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.*

Board or Disciplinary Committee shall furnish the Non-Conforming Member with a written statement of its decision, which shall be final, conclusive, and binding.¹⁵

V. Whether and how the clearing organization articulates its rationale for disciplinary decisions.

The Board or Disciplinary Committee issues its disciplinary decisions in written decisions.¹⁶

VI. The sanctions for particular violations and a discussion of the adequacy of sanctions with respect to the violations committed and their effectiveness as deterrents to future violations.

Aside from certain fines specified for late payments, the Board has discretion to determine appropriate sanctions. CDCC believes that its authority to impose sanctions, and its system for doing so when warranted, are adequate to violations that may be committed, and serve as effective deterrents to future violations.

¹⁵ *Id.*

¹⁶ *See, e.g.*, CDCC Rules, A-1A08(5), A-502(3).

SUPP S-1—EXHIBIT F-4

Request: Attach, to the extent not provided in Exhibit F-2, a demonstration that the clearing organization is authorized by rule or contractual agreement to obtain, from members and other participants, any information and cooperation necessary to conduct investigations, to effectively enforce its rules, and to ensure compliance with the conditions of registration.

Response:

In the application for membership, each clearing member agrees that its books and records shall at all time be readily available for inspection by CDCC or its agents, and that it will promptly furnish other relevant information as CDCC may require.¹ This obligation extends for seven years following the termination of the clearing member's membership in CDCC, with respect to the time period it was a member of CDCC.

¹ See Attachment 38, CDCC Application for Membership, § 3.4.