

SUPP S-1—EXHIBIT B

Request: Attach the following, separately labeling each description:

- (1) A description of the categories of membership and participation in the clearing organization and the access and clearing privileges provided to each by the clearing organization.
- (2) A description of all requirements for each category of membership and participation and the manner in which members and other participants are required to demonstrate their compliance with these requirements. The description should include, but not be limited to, the following:
 - (i) Professional Qualification. A description of the specific professional requirements, qualifications, and/or competencies required of members or other participants and/or their staff and a description of the process by which the clearing organization confirms compliance with such requirements.
 - (ii) Authorization, Licensure and Registration. A description of any regulatory or self-regulatory authorization, licensure or registration requirements that the clearing organization imposes upon, or enforces against, its members and other participants including, but not limited to any authorization, licensure or registration requirements imposed by the regulatory regime/authority in the home country jurisdiction(s) of the clearing organization, and a description of the process by which the clearing organization confirms compliance with such requirements.
 - (iii) Financial Integrity. A description of the following:
 - (A) The financial resource requirements, standards, guides or thresholds required of members and other participants.
 - (B) The manner in which the clearing organization evaluates the financial resources/holdings of its members or other participants.
 - (C) The process by which applicants for clearing membership or participation demonstrate compliance with financial requirements including:
 - (1) Working capital and collateral requirements, and
 - (2) Risk management mechanisms.
 - (iv) Fit and Proper Standards. A description of any other ways in which the clearing organization ensures that potential members/other participants meet fit and proper standards.

Response:

I. A description of the categories of membership and participation in the clearing organization and the access and clearing privileges provided to each by the clearing organization.

There is a single category of membership: Clearing Member. For members, clearing is available for all derivative instruments traded on MX and for OTCI transactions. Members either clear or settle through CDCC directly, or enter into an agreement with another member who acts as clearing or settling agent.

II. A description of all requirements for each category of membership and participation and the manner in which members and other participants are required to demonstrate their compliance with these requirements.

A. Professional Qualification

All members must be engaged in the clearing of options or futures traded on MX, or in the clearance of fixed income transactions or other OTCI transactions through the facilities of CDCC.¹ Members must also maintain adequate operations facilities and staff, and have sufficient and competent personnel for the expeditious and orderly transaction of business with the CDCC and other clearing members.²

CDCC confirms compliance with these requirements through an initial application process, in which an applicant must attest that it meets all of CDCC's eligibility requirements, as specified in the CDCC Rules.³ In evaluating an application, CDCC may examine the books and records of an applicant, and take any other evidence that it deems relevant.⁴

B. Authorization, Licensure and Registration

Members must be either a member or approved participant in good standing with an exchange recognized in a Canadian province, or a bank or authorized foreign bank to which the Bank Act (Canada) applies.⁵ Members who wish to submit certain types of contracts for clearing must be members of CDS Clearing and Depository Services Inc. (CDS), or other, specified, relevant market centers or registries.⁶

CDCC confirms compliance with these requirements through an initial application process, in which an applicant must attest that it meets all of CDCC's eligibility requirements, as specified in the CDCC Rules.⁷ In evaluating an application, CDCC may examine the books and records of an applicant, and take any other evidence that it deems relevant.⁸

¹ Attachment 40, CDCC Rules § A-1A02(b).

² CDCC Rules § A-1A02(c).

³ Attachment 38, CDCC Application for Membership § 6.

⁴ CDCC Rules § A-1A03.

⁵ CDCC Rules § A-1A01(a).

⁶ *Id.*

⁷ CDCC Application for Membership § 6.

⁸ CDCC Rules § A-1A03.

C. Financial Integrity

1. The financial resource requirements, standards, guides or thresholds required of members and other participants.

Clearing members must satisfy the minimum capital adequacy requirements. Clearing members who are members or approved participants of an SRO must satisfy the requirements adopted by the Investment Industry Regulatory Organization of Canada (IIROC).⁹ Bank clearing members must satisfy the requirements adopted by the Office of the Superintendent of Financial Institutions.¹⁰

Members who wish to clear fixed income transactions must meet different minimum capital requirements. If the member clears only its own fixed income transactions, and those of its affiliates, the member must either have a minimum capital of \$50,000,000 and be a primary dealer of the Bank of Canada, or have a minimum capital of \$100,000,000.¹¹ If the member also clears fixed income transactions of clients other than its affiliates, the member must have a minimum capital of \$200,000,000.¹²

When requested, each member must file with CDCC a report covering the computation of its capital requirements.¹³

2. The manner in which the clearing organization evaluates the financial resources/holdings of its members or other participants.

CDCC initially evaluates new clearing members based on a due diligence of financial metrics, corporate strategy, business model, funding sources, and leverage. It conducts on-going evaluation of financial measures as published by the clearing members' regulatory reporting, including risk-adjusted capital, liquidity ratios, and profitability.

CDCC has the authority to inspect the books and records of any clearing member.¹⁴ The CDCC auditor may also examine the financial or business affairs of any member.¹⁵

CDCC also has in place an information sharing Memorandum of Understanding with the IIROC, in order to share information on members' status.

3. The process by which applicants for clearing membership or participation demonstrate compliance with financial requirements including:

a) Working capital and collateral requirements, and

⁹ CDCC Rules A-301(1)(a).

¹⁰ CDCC Rules A-301(1)(b).

¹¹ CDCC Rules A-301(3)(a).

¹² CDCC Rules A-301(3)(b).

¹³ CDCC Rules A-301(2).

¹⁴ CDCC Rules A-304(1).

¹⁵ CDCC Rules A-306(a).

CDCC clearing member risk-adjusted capital levels are reviewed against the requirements for membership monthly. Clearing members must meet collateral requirements for initial margin on a daily basis and for the clearing fund on a monthly basis. In addition, clearing members with initial margin requirements greater than their capital must meet daily capital margin calls to limit excessive leverage.¹⁶

b) Risk management mechanisms.

In addition to the financial requirements for continued membership and the collateral requirements which are risk-based, CDCC Rules require that clearing members have the operational capacity and the appropriate staffing levels to ensure that their activities do not introduce additional operational risks to the clearing system. Risk management mechanisms are set forth in the Risk Manual of CDCC.

¹⁶ CDCC Rules A-710.