

## **Summary of ICE Clear Canada, Inc. Rules**

The Rules of ICE Clear Canada (Attachment A-5(2) to Exhibit A-5) must be approved by the Board, pursuant to the requirements of the By-laws (Attachment A-5(1) to Exhibit A-5) and MSC Recognition Order No. 5719 (Attachment A-1(7) to Exhibit A-1).

In June of 2013, ICE Clear Canada transitioned to the ICE Clearing System. This transition required several amendments to ICE Clear Canada's Rules and Operations Manual. The majority of the amendments, in both the Rules and the Operations Manual, dealt with process and system changes, and impacted the names of reports and applications, timing and scheduling, and similar. The transition introduced new processes that Clearing Participants are required to adhere to, including position reporting that includes a preliminary report and a final morning adjustment report. Options Exercises are conducted on a pro-rata, rather than a random, basis. Certain of the processes that were formally paper based were transitioned to on-line applications.

On July 18, 2014 Gross Customer Margining was implemented.

The Rules are set out in three Parts; A, B, and C.

**Part A** is the general rule provisions that apply to all contracts cleared by ICE Clear Canada. The definitions at Rule A-102 apply to all of the Rules and the Operations Manual (A-102).

Part A also provides for the Rules supporting ICE Clear Canada's designation as a "*securities and derivatives clearing house*" under the *Payment Clearing and Settlement Act* ("PCSA"), provides for the netting requirements under the PCSA, and provides an acknowledgement that all obligations to deposit a margin and/or guaranty fund contribution constitutes an "eligible financial contract". As is noted at Rule A-107, these provisions are fundamental to ensuring the ability of ICE Clear Canada to proceed under its rules in the event of an insolvency of a Clearing Participant. (Rules A-105, A-106, and A-107).

Rule A-2 provides for Clearing Participant requirements, categories, rights and privileges, application forms, admission procedures, and annual participant fees.

Rule A-208 contains the Rules relative to the financial obligations that Clearing Participants Assume by providing Clearing Authorizations and Guarantees or issuing Systems Managed Accounts for customers.

The provisions relating to Non-Conforming Participant status are set out at Rule A-209. This Rule provides details on the events which may deem a Clearing Participant insolvent or unable to meet its obligations. The processes undertaken by ICE Clear Canada in the event of suspension of or voluntary withdrawal by a Clearing Participant and the survival of obligations to the clearinghouse are set out in Rules A-210 through A-215.

Rule A-217 sets out the obligations of ICE Clear Canada to maintain confidential information of Clearing Participants and sets out the circumstances in which such information can be shared, including with regulators, with other clearinghouses under appropriate MOUs and pursuant to court orders.

The basis on which Clearing Participants give directions to ICE Clear Canada is set out at A-219 through A-221.

Rule A-222 sets out the details of records that Clearing Participants must keep with regard to Exchange transactions. These records must be retained for at least seven (7) years.

Payment of fees and charges are set out at Rule A-224 and Rule A-225 deals with force majeure and emergency events. How ICE Clear Canada is required to distribute information is included at A-227 and the amendments to Rules section is set out at Rule A-228.

Clearing Participants are required to make payments and deposits and/or transfer funds throughout the course of fulfilling their obligations to ICE Clear Canada. The manner in which such deposits are made, as well as any withdrawals, is set out in Rule A-229.

The liability of ICE Clear Canada is set out in Rule A-232. All liability with respect to the use of the Clearing System is accepted by the Clearing Participants. ICE Clear Canada is not liable to Clearing Participants for any failure of the Clearing System and/or any act or omission of ICE Clear Canada, its directors, officers, employees or committee members.

Rule A-3 details the capital requirements for Clearing Participants. Clearing Participants are required to maintain minimum capital requirements depending upon their category of registration and are responsible for notifying ICE Clear Canada immediately if there are any changes to their financial status that would impact their ability to meet the necessary capital requirements (Rules A-301 through A-303).

Pursuant to Rule A-305, Clearing Participants in the category of General are required to file financial statements and related financial documentation (Annex 7.D, Adjusted Net Capital Calculation and Annex 7.A Financial Questionnaire and Report Form) on a monthly basis (within 17 business days after the end of each month) and file annual audited financial statements, within 90 days of the end of fiscal year end. ICE Futures Canada is responsible for collecting and reviewing all of the required financial statements from Clearing Participants registered in the category of General since ICE Futures Canada is the only self-regulatory organization that oversees the financial standards of these entities.

Pursuant to Rules A-307 and A-308, the Board can take such action as it deems appropriate in the event that a Clearing Participant becomes insolvent; no longer meets the financial requirements necessary to maintain Clearing Participant status; or is in a condition whereby it is necessary to impose restrictions on its positions.

Rule A-4 (Enforcement) sets out the actions that may be taken in the event that a Clearing Participant becomes a Non-Conforming Participant. Non-Conforming status generally applies to any Clearing Participant that does not meet the requirements of the Rules and may precede a default. The options available to the clearinghouse in a situation where a Clearing Participant becomes Non-Conforming are set out at Rules A-402 to A-406.

The Board has considerable flexibility to deal with Non-Conforming Clearing Participants, including the authority to suspend a Clearing Participant and then to transfer, close out, or manage open positions and to apply the defaulting Clearing Participant's deposits for margin and Guaranty Fund purposes.

Rule A-5 sets out the disciplinary proceedings, including the investigation processes, the requirements to produce records and documents upon request, the ability of ICE Clear Canada to request sworn testimony, the requirements of confidentiality and the hearing processes. The Rules also provide for the hearing and appeal processes. Further details are set out in Exhibit F-3.

Rule A-6 provides for the Guaranty Fund.

Pursuant to Rule A-602, the Base Guaranty Fund is calculated as the greater of:

- (i) The largest uncovered risk on any single Clearing Participant's total positions during the last 260 Trading Days, adjusted for the largest position size during the last 60 Trading Days (taking into account increases or decreases in open interest), or
- (ii) The largest Uncovered Risk on any single Clearing Participant's total positions during the last 60 Trading Days; or
- (iii) \$15,000,000.

The Guaranty Fund is re-calculated and re-allocated at least once per month, within the first 6 Trading Days of each month, and will be reviewed more frequently when markets are especially volatile or positions have increased significantly (Rule A-604).

In the event that a calculation of the Guaranty Fund amount between the normal calculation dates reveals a deficiency in the total fund of 20 percent or more of the total fund, then the Clearing Fund is re-calculated and re-allocated at that time.

Each Clearing Participant is notified in writing of changes to the amount of the Clearing Fund and changes to its required contribution. Clearing Participants are given three (3) Trading Days from the date of notice to provide any required additional deposits to the Clearing Fund, and firms whose requirements are reduced are able to request withdrawals of surplus deposits beginning on the fourth Trading Day after notice is provided.

Required funds are required to be deposited in one or more of: (i) Cash; or (ii) Government Securities as provided for in Rule A-605.

Rule A-7 sets out Margin Requirements for Clearing Participants. The intended coverage of margin requirements is that it should provide cover for potential exposures of a Clearing Participant's positions in normal market conditions. ICE Clear Canada establishes margin levels that are commensurate with the risks and unique attributes of each product (Rule A-701).

Rule A-702 provides that in the case where the margin concentration of a Clearing Participant's positions is in breach of pre-defined risk limits, the Clearing Participant will be required to reduce their concentration, by either putting up extra cash or collateral with ICE Clear Canada or, reducing the open positions.

ICE Clear Canada has both the authorization and the operational capacity to make intra-day calls for variation margin. Intraday margin calls are calculated three times daily using updated positions and current prices, and may be calculated more often in volatile market conditions. Any amount over a threshold specified in the Rules is called for. Notice will be given to the

Clearing Participant of the amount payable and payment must be made within one hour of the Call for Margin ( ).

To ensure that liquidity and market and counterparty risks are reduced, only readily available and highly liquid assets are acceptable for margin deposits. The Rules specify the available classes of permitted cover and applicable haircuts. The following are the only assets that are accepted for margin deposits (as per Rule A-708):

- Cash – Canadian dollars only
- Canadian government securities; and/or
- Letters of Credit from acceptable depositories (not to exceed 50% of the participants total margin requirement, or \$10 million dollars, whichever is the lesser).

Rule A-8 describes the daily settlement procedures. As per Rule A-802, ICE Clear Canada uses one clearing settlement bank and utilizes the Large Value Transfer System (LVTS) to transfer funds to and from Clearing Participants. LVTS is utilized in Canada by all of the Schedule 1 banks and each Clearing Participant must have an account with a bank that utilizes LVTS. All settlements are in Canadian dollars, which is the only currency accepted by ICE Clear Canada.

The payment services agreements between ICE Clear Canada and its central clearing bank, the Royal Bank of Canada, states that funds transfers are final when effected and that confirmations are irrevocable. Once an LVTS-SWIFT message has been given by the payment bank the payment bank will not be able to reverse the payment without authorisation from ICECC.

Rule A-9 allows ICE Clear Canada to conduct an audit of clearing fees of Futures Commission Merchant Clearing Participants. Pursuant to Rule A-902, ICE Futures Canada is the designated agent for conducting clearing fee audits on behalf of ICE Clear Canada.

Rule A-10 provides for the committee structure of ICE Clear Canada. ICE Clear Canada has three committees which are mandated; the Clearing Advisory Committee, the Risk Committee and the Hearing Committee. Both the Risk Committee and the Clearing Advisory Committee are advisory in nature only – they provide information and recommendations to the Board but do not have rule-making powers. These committees provide the input and collective knowledge of the stakeholder community, providing valuable insight and advice to the Board. The Hearing Committee is responsible for disciplinary hearings at first instance. Further details on the role of this committee can be found at Exhibit F-3.

Rule A-11 pertains to Security Interests and provides for ICE Clear Canada to have a priority security interest in all collateral deposited by Clearing Participants for margin and Guaranty Fund deposits. All collateral<sup>1</sup> is held in two locations; the clearinghouse settlement bank, Royal Bank of Canada (in numerous segregated accounts), or a pledged account at the Canadian Depository for Securities Limited (CDS) where ICE Clear Canada is itself a member (limited category).

All Government of Canada securities, and other securities, are held on an uncertificated basis in a pledged account at CDS. When a Clearing Participant pledges a security with ICE Clear

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<sup>1</sup> The assets held by ICE Clear Canada as Margin Deposits (“Margin Deposits” includes, collectively for collateral provided for margin requirements and Clearing Fund requirements) from Clearing Participants include cash, Canadian Government securities, certain other selected securities, and Letters of Credit.

Canada, ICE Clear Canada holds it in its CDS account. That amount is under the control of ICE Clear Canada and only ICE Clear Canada can return the pledged asset to the Clearing Participant. If required, ICE Clear Canada can seize any Margin Deposit and, if a security, have it sold for cash.

Rule A-11.01(5) provides that upon the suspension or termination of a Clearing Participant or in a situation where a Clearing Participant has not made a payment, ICE Clear Canada can call in and realize upon any asset pledged without prior notice to the Clearing Participant.

**Part B** sets out the Rules regarding options contracts.

Rule B-101 and Rule B-102 provide for the obligations of Clearing Participants with regard to the clearance of options, as well as account maintenance. Rule B-103 provides the clearinghouse with a lien on, and a security interest in, all accounts for options by Clearing Participants. This Rule provides for the right of ICE Clear Canada to net all writing options transactions against all purchase transactions.

Rule B-1 also provides for the obligations of ICE Clear Canada with respect to issuing options, accepting transactions and settling transactions.

Rule B-2 pertains to the reporting of options and sets out the details provided in daily activity reports provided by ICE Clear Canada to Clearing Participants and the responsibility of the Clearing Participants to ensure the accuracy of these reports.

All matters relating to the tender and assignment of exercise notices are detailed in Rule B-3. Rule B-4 describes the delivery and payment processes with respect to exercised options. Reference to ICE Futures Canada Rules is made in Rule B-5 with regard to the contract specifications of the options contracts.

**Part C** sets out the Rules regarding futures contracts.

Rule C-1 provides for the obligations of Clearing Participants with regard to the clearance of futures contracts, as well as account maintenance. The obligations of ICE Clear Canada and acceptance of transactions are included as are the processes for closing out open positions. The rights and obligations of Clearing Participants with respect to futures positions, amounts owed, the payment of credit balances and the creation and accounting for long positions and short positions as well as closing transactions are all set out in Rule C-1.

Rule C-2 pertains to trade reporting of futures and sets out the details provided in daily activity reports provided by ICE Clear Canada to Clearing Participants and the responsibility of the Clearing Participants to ensure the accuracy of these reports.

All matters relating to settlement of futures contracts and gains and losses are detailed in Rule C-3.

Rule C-5 describes the delivery processes of the underlying interest of futures contracts, and sets out the obligations of Clearing Participants with regard to making and/or taking delivery against futures contracts. The physical delivery process for ICE Futures Canada contracts is in two distinct parts. In the first part of the process, short futures positions held by Clearing Participants are tendered, and corresponding long futures positions are assigned delivery by ICE Clear Canada to Clearing Participants. Assuming the appropriate paperwork is submitted

and financial obligations are met, the positions are eliminated at the clearinghouse, and are replaced by delivery paper (Warrants and Delivery Certificates) which evidences a new set of rights and obligations. At this point, ICE Clear Canada's obligations are complete. Rule C-5 provides for the notification requirements on delivery, the assignment of tender notices, and the obligations to deliver. Rules pertaining to a failure to make or take delivery, and the penalties and restrictions are set out in Rules C-513 through C-517.

### **Operations Manual**

The Operations Manual of ICE Clear Canada provides for the operational aspects of ICE Clear Canada's operations, as well as providing for detailed explanations on the processes and timelines that ICE Clear Canada adheres to. The procedures for processing trades, determining open positions, margins, exercises, tenders and assigned positions and settlement transactions are provided for.

The Operations Manual contains the Schedule of Fees and the form of Letter of Credit that is accepted by ICE Clear Canada.

The appendixes to the Operations Manual include copies of the exercise notice, instruction forms, withdrawal request form, deposit form and the tender notice form.

Procedures, deadlines, and forms contained in the Operations Manual have the full force of ICE Clear Canada's Rules and failure by Clearing Participants to comply with the provisions of the Operations Manual is considered a violation of ICE Clear Canada's Rules.