REGULATION 24-102 RESPECTING CLEARING AGENCY REQUIREMENTS

Securities Act
(chapter V-1.1, s. 331.1, par. (1), (2), (3), (4.1), (9.1), (11), (32.0.1) and (34))

PART 1
DEFINITIONS, INTERPRETATION AND APPLICATION

Definitions

1.1. In this Regulation, including Appendix A to this Regulation,

"board of directors" means, in the case of a recognized clearing agency that does not have a board of directors, a group of individuals that acts for the clearing agency in a capacity similar to a board of directors;

"clearing agency" includes, in Quebec, a clearing house, central securities depository and settlement system within the meaning of the Quebec Securities Act and a derivatives clearing house and settlement system within the meaning of the Quebec Derivatives Act;

"central counterparty" means a person that interposes itself between the counterparties to securities or derivatives transactions in one or more financial markets, acting functionally as the buyer to every seller and the seller to every buyer or the counterparty to every party;

"central securities depository" means a person that provides centralized facilities as a depository of securities, including securities accounts, central safekeeping services, and asset services, which may include the administration of corporate actions and redemptions;

"executive officer" has the meaning ascribed to it in Regulation 52-110 respecting Audit Committee;

"exempt clearing agency" means a clearing agency that has been granted a decision of the securities regulatory authority pursuant to securities legislation exempting it from the requirement in such legislation to be recognized by the securities regulatory authority as a clearing agency;

"immediate family member" has the meaning ascribed to it in Regulation 52-110 respecting Audit Committee;

"initial margin", in relation to a clearing agency's margin system to manage credit exposures to its participants, means collateral that is required by the clearing agency to cover potential changes in the value of each participant's position (that is, potential future exposure) over an appropriate close-out period in the event the participant defaults;

"link" means, in relation to a clearing agency, a set of contractual and operational arrangements that directly or indirectly through an intermediary connects the clearing agency and one or more other systems or arrangements for the clearing, settlement or recording of securities or derivatives transactions;

"participant" means a person that has entered into an agreement with a clearing agency to access the services of the clearing agency and is bound by the clearing agency's rules and procedures;

"PFMI Disclosure Framework Document" means a disclosure document completed substantially in the form of *Annex A: FMI disclosure template* of the December 2012 report *Principles for financial market infrastructures: Disclosure framework and Assessment methodology* published by the Committee on Payment and Settlement Systems and the International Organization of Securities Commissions, as amended, supplemented or superseded from time to time or a similar disclosure document required to be completed regularly and disclosed publicly by a clearing agency in accordance with the regulatory requirements of a foreign jurisdiction in which the clearing agency is located;

"product", when used in relation to a clearing agency's depository, clearance or settlement services, means a security or derivative, or class of securities or derivatives, or, where the context so

requires, a trade or other transaction in or related to a security or derivative, or class of securities or derivatives, that is eligible for such services;

"securities settlement system" means a system that enables securities to be transferred and settled by book entry according to a set of predetermined multilateral rules;

"Standard" means a standard set out in Appendix A to this Regulation that is based on international standards governing financial market infrastructures developed by the Committee on Payment and Settlement Systems and the International Organization of Securities Commissions;

"stress test" or "stress testing" means, except in section 4.13, a test conducted periodically by a clearing agency that operates as a central counterparty or securities settlement system to estimate credit and liquidity exposures that would result from the realization of extreme price changes to determine the amount and sufficiency of the clearing agency's total financial resources available in the event of a default or multiple defaults in extreme but plausible market conditions;

"variation margin", in relation to the margin system of a clearing agency that operates as a central counterparty to manage credit exposures to its participants for all products it clears, means funds that are collected and paid out on a regular and *ad hoc* basis by the clearing agency to reflect current exposures resulting from actual changes in market prices.

Interpretation – Meaning of Accounting Terms

1.2. In this Regulation, each of the following terms has the same meaning as in Regulation 52-107 respecting Acceptable Accounting Principles and Auditing Standards: "accounting principles", "auditing standards", and "publicly accountable enterprises".

Interpretation - Affiliated Entity, Controlled Entity and Subsidiary Entity

1.3. (1) In this Regulation, a person is considered to be an affiliated entity of another person if one is a subsidiary entity of the other or if both are subsidiary entities of the same person, or if each of them is a controlled entity of the same person.

(2) In this Regulation, a person is considered to be controlled by a person if

(a) in the case of a person,

(i) voting securities of the first-mentioned person carrying more than 50% of the votes for the election of directors are held, otherwise than by way of security only, by or for the benefit of the other person, and

(ii) the votes carried by the securities are entitled, if exercised, to elect a majority of the directors of the first-mentioned person;

(b) in the case of a partnership that does not have directors, other than a limited partnership, the second-mentioned person holds more than 50% of the interests in the partnership; or

(c) in the case of a limited partnership, the general partner is the second-mentioned person.

(3) In this Regulation, a person is considered to be a subsidiary entity of another person if

(a) it is a controlled entity of,

(i) that other,

(ii) that other and one or more persons each of which is a controlled entity of that other, or

(iii) two or more persons, each of which is a controlled entity of that other; or

(b) it is a subsidiary entity of a person that is the other's subsidiary entity.

Interpretation – Extended Meaning of Affiliate

1.4. For the purposes of Standards 4, 5, 6 and 7 in Appendix A to this Regulation, a person is also considered to be an affiliate of a participant (in this section, the person and the participant each described as a "party") where,

(a) a party holds directly or indirectly, otherwise than by way of security only, voting securities of the other party carrying at least 20 percent of the votes for the election of directors; or

(b) in the event paragraph (a) is not applicable,

(i) a party holds directly or indirectly, otherwise than by way of security only, an interest in the other party that allows it to direct the management or operations of the other party; or

(ii) financial information in respect of both parties is consolidated for financial reporting purposes.

Application

1.5. (1) Chapter 3 applies to a recognized clearing agency that operates as any of the following:

(a) a central counterparty;

(b) a central securities depository; or

(c) a securities settlement system.

(2) Unless the context otherwise indicates, Chapter 4 applies to a recognized clearing agency whether or not it operates as a central counterparty, central securities depository or securities settlement system.

(3) In Quebec, if there is a conflict or an inconsistency between section 2.2 for implementing a material change and the provisions of the Quebec *Derivatives Act* governing the self-certification process,, the provisions of the Quebec *Derivatives Act* prevail.

CHAPTER 2
CLEARING AGENCY RECOGNITION OR EXEMPTION FROM RECOGNITION

Application and initial filing of information

2.1. (1) An applicant for recognition as a clearing agency under securities legislation, or for exemption from the requirement to be recognized as a clearing agency pursuant to such securities legislation, must include in its application:

(a) where applicable, the applicant's most recently completed PFMI Disclosure Framework Document;

(b) sufficient information to demonstrate that the applicant is in compliance with,

(i) provincial and territorial securities legislation, or

(ii) the regulatory regime of a foreign jurisdiction in which the applicant's head office or principal place of business is located; and

(c) any additional relevant information sufficient to demonstrate that it is in the public interest for the securities regulatory authority to recognize or exempt the applicant, as the case may be.

(2) In addition to the requirement set out in subsection (1), an applicant whose head office or principal place of business is located in a foreign jurisdiction must,

(a) certify that it will assist the securities regulatory authority in accessing the applicant's books and records and in undertaking an onsite inspection and examination at the applicant's premises;

(b) certify that it will provide the securities regulatory authority, where requested by such authority, with an opinion of legal counsel that the applicant has, as a matter of law, the power and authority to,

(i) provide the securities regulatory authority with prompt access to its books and records; and

(ii) submit to onsite inspection and examination by the securities regulatory authority.

(3) In addition to the requirements set out in subsections (1) and (2), an applicant whose head office or principal place of business is located in a foreign jurisdiction must file a completed Form 24-102F1.

(4) An applicant must inform the securities regulatory authority in writing of any material change to the information provided in its application, or if any of the information becomes materially inaccurate for any reason, as soon as the change occurs or the applicant becomes aware of any inaccuracy.

Material changes and other changes in information

2.2. (1) In this section, for greater certainty, a "material change" includes, in relation to a clearing agency,

(a) any change to the clearing agency's constating documents or by-laws;

(b) any change to the clearing agency's corporate governance or corporate structure, including any change of control of the clearing agency, whether directly or indirectly;

(c) any material change to an agreement among the clearing agency and participants in connection with the clearing agency's operations and services, including those agreements to which the clearing agency is a party and those agreements among participants to which the clearing agency is not a party, but which are expressly referred to in the clearing agency's rules or procedures and are made available by participants to the clearing agency;

(d) any material change to the clearing agency's rules, operating procedures, user guides, manuals, or other documentation governing or establishing the rights, obligations and relationships among the clearing agency and participants in connection with the clearing agency's operations and services;

(e) any material change to the design, operation or functionality of any of the clearing agency's operations and services;

(f) the establishment or removal of a link or any material change to an existing link;

(g) commencing to engage in a new type of business activity or ceasing to engage in a business activity in which the clearing agency is then engaged; and

(h) any other matter identified as a material change in the recognition terms and conditions.

(2) A recognized clearing agency must not implement a material change without obtaining the prior written approval of the securities regulatory authority.

(3) If a proposed material change would affect the information set out in its PFMI Disclosure Framework Document filed with the securities regulatory authority, a recognized clearing agency must complete and file with the securities regulatory authority, prior to implementing the material change, an appropriate amendment to the its PFMI Disclosure Framework Document.

(4) Where a recognized clearing agency proposes to modify a fee or introduce a new fee for any of its clearing, settlement or depository services, the clearing agency must notify in writing the securities regulatory authority of such fee change at least twenty business days before implementing the fee change.

(5) An exempt clearing agency must notify in writing the securities regulatory authority which granted the exemption of any material change to the information provided to the securities regulatory authority in its PFMI Disclosure Framework Document and related application materials, or if any of the information becomes materially inaccurate for any reason, as soon as the change occurs or the exempt clearing agency becomes aware of any inaccuracy.

Ceasing to carry on business

2.3. (1) A recognized clearing agency or exempt clearing agency that intends to cease carrying on business in Canada as a clearing agency must file a report on Form 24-102F2 with the securities regulatory authority,

(a) at least 180 days before ceasing to carry on business if a significant reason for ceasing to carry on business relates to the clearing agency's financial viability or any other matter that is preventing, or may potentially prevent, it from being able to provide its operations and services as a going concern; or

(b) at least 90 days before ceasing to carry on business for any other reason.

(2) A recognized clearing agency or exempt clearing agency that involuntarily ceases to carry on business in Canada as a clearing agency must file a report on Form 24-102F2 with the securities regulatory authority as soon as practicable after it ceases to carry on that business.

Filing of initial audited financial statements

2.4. (1) An applicant must file audited financial statements for its most recently completed financial year with the securities regulatory authority as part of its application under section 2.1.

(2) The financial statements referred to in subsection (1) must,

(a) be prepared in accordance with Canadian GAAP applicable to publicly accountable enterprises, IFRS or the generally accepted accounting principles of the foreign jurisdiction in which the person is incorporated, organized or located,

(b) identify in the notes to the financial statements the accounting principles used to prepare the financial statements,

(c) disclose the presentation currency, and

(d) be audited in accordance with Canadian GAAS, International Standards on Auditing or the generally accepted auditing standards of the foreign jurisdiction in which the person is incorporated, organized or located.

(3) The financial statements referred to in subsection (1) must be accompanied by an auditor's report that,

(a) expresses an unmodified or unqualified opinion,

(b) identifies all financial periods presented for which the auditor's report applies,

(c) identifies the auditing standards used to conduct the audit,

(d) identifies the accounting principles used to prepare the financial statements,

(e) is prepared in accordance with the same auditing standards used to conduct the audit, and

(f) is prepared and signed by a person that is authorized to sign an auditor's report under the laws of a jurisdiction of Canada or a foreign jurisdiction, and that meets the professional standards of that jurisdiction.

Filing of annual audited and interim financial statements

2.5. (1) A recognized clearing agency or exempt clearing agency must file annual audited financial statements that comply with the requirements in subsections 2.4(2) and (3) with the securities regulatory authority no later than the 90th day after the end of its financial year.

(2) A recognized clearing agency or exempt clearing agency must file interim financial statements that comply with the requirements in paragraphs 2.4(2)(a) and (2)(b) with the securities regulatory authority no later than the 45th day after the end of each interim period.

CHAPTER 3
INTERNATIONAL STANDARDS APPLICABLE TO RECOGNIZED CLEARING AGENCIES

Standards

3.1. A recognized clearing agency must establish, implement and maintain rules, procedures, policies or operations designed to ensure that it meets or exceeds the Standards in Appendix A with respect to its clearing, settlement and depository activities.

CHAPTER 4
OTHER REQUIREMENTS OF RECOGNIZED CLEARING AGENCIES

Division 1 – Governance:

Board of directors

4.1. (1) A recognized clearing agency must have a board of directors.

(2) The board of directors must include appropriate representation by individuals who are

(a) independent of the clearing agency; and

(b) not employees or executive officers of a participant or their immediate family members.

(3) For the purposes of paragraph (2)(a), an individual is independent of a clearing agency if he or she has no direct or indirect material relationship with the clearing agency.

(4) For the purposes of subsection (3), a "material relationship" is a relationship which could, in the view of the clearing agency's board of directors, be reasonably expected to interfere with the exercise of a member's independent judgment.

(5) Despite subsection (4), the following individuals are considered to have a material relationship with a clearing agency:

(a) an individual who is, or has been within the last 3 years, an employee or executive officer of the clearing agency or any of its affiliates;

(b) an individual whose immediate family member is, or has been within the last 3 years, an executive officer of the clearing agency or any of its affiliates;

(c) an individual who beneficially owns, directly or indirectly, voting securities carrying more than ten per cent of the voting rights attached to all voting securities of the clearing agency or any of its affiliates for the time being outstanding;

(d) an individual whose immediate family member beneficially owns, directly or indirectly, voting securities carrying more than ten per cent of the voting rights attached to all voting securities of the clearing agency or any of its affiliates for the time being outstanding;

(e) an individual who is, or has been within the last 3 years, an executive officer of a person that beneficially owns, directly or indirectly, voting securities carrying more than ten per cent of the voting rights attached to all voting securities of the clearing agency or any of its affiliates for the time being outstanding; and

(f) an individual who accepts or who received during any 12 month period within the last 3 years, directly or indirectly, any audit, consulting, advisory or other compensatory fee from the clearing agency or any of its affiliates, other than as remuneration for acting in his or her capacity as a member of the board of directors or any board committee, or as a part-time chair or vice-chair of the board or any board committee.

(6) For the purposes of subsection (5), the indirect acceptance by an individual of any audit, consulting, advisory or other compensatory fee includes acceptance of a fee by

(a) an individual's immediate family member; or

(b) an entity in which such individual is a partner, a member, an officer such as a managing director occupying a comparable position or an executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the clearing agency or any of its affiliates.

(7) For the purposes of subsection (5), compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the clearing agency if the compensation is not contingent in any way on continued service.

(8) For the purposes of subsection (5), an individual appointed to the board of directors or board committee of the clearing agency or any of its affiliates or of a person referred to in paragraph (5)(e) will not be considered to have a material relationship with the clearing agency solely because the individual acts, or has previously acted, as a chair or vice-chair of the board of directors or a board committee.

(9) If a clearing agency is a reporting issuer and there is a conflict or an inconsistency between this section 4.1 and the provisions of Regulation 52-110 respecting Audit Committee governing the audit committee members, the provisions of Regulation 52-110 respecting Audit Committee prevail.

Documented procedures regarding risk spill-overs

4.2. The board of directors and management of a recognized clearing agency must have documented procedures to manage possible risk spill over where the clearing agency provides services with a different risk profile than its depository, clearing, and settlement services.

Chief Risk Officer and Chief Compliance Officer

4.3. (1) A recognized clearing agency must designate a chief risk officer and a chief compliance officer, who must report directly to the board of directors or, if determined by the board of directors, to the chief executive officer of the clearing agency.

(2) The chief risk officer must,

(a) have full responsibility and authority to maintain, implement and enforce the risk management framework established by the clearing agency;

(b) make recommendations to the clearing agency’s board of directors regarding the clearing agency’s risk management framework;

(c) monitor the effectiveness of the clearing agency’s risk management framework on an ongoing basis; and

(d) report to the clearing agency’s board of directors on a timely basis upon becoming aware of any significant deficiency with the risk management framework.

(3) The chief compliance officer must,

(a) establish, implement, maintain and enforce written policies and procedures to identify and resolve conflicts of interest and ensure that the clearing agency complies with securities legislation;

(b) monitor compliance with the policies and procedures described under paragraph (a) on an ongoing basis;

(c) report to the board of directors of the clearing agency as soon as practicable upon becoming aware of any circumstance indicating that the clearing agency, or any individual acting on its behalf, is not in compliance with securities legislation and one or more of the following apply:

(i) the non-compliance creates a risk of harm to a participant,

(ii) the non-compliance creates a risk of harm to the broader financial system,

(iii) the non-compliance is part of a pattern of non-compliance, or

(iv) the non-compliance may have an impact on the ability of the clearing agency to carry on business in compliance with securities legislation;

(d) prepare and certify an annual report assessing compliance by the clearing agency, and individuals acting on its behalf, with securities legislation and submit the report to the board of directors; and

(e) report to the clearing agency's board of directors as soon as practicable upon becoming aware of a conflict of interest that creates a risk of harm to a participant or to the capital markets; and

(f) concurrently with submitting a report under paragraphs (c), (d) or (e), file a copy of such report with the securities regulatory authority.

Board or advisory committees

4.4. The board of directors of a recognized clearing agency must establish and maintain one or more committees on risk management, finance, audit and executive compensation, whose mandates must include, at a minimum, the following:

(a) providing advice and recommendations to the board of directors to assist it in fulfilling its risk management responsibilities, including reviewing and assessing the clearing agency's risk management policies and procedures, the adequacy of the implementation of appropriate procedures to mitigate and manage such risks, and the clearing agency's participation standards and collateral requirements;

(b) ensuring adequate processes and controls are in place over the models used to quantify, aggregate, and manage the clearing agency's risks;

(c) monitoring the financial performance of the clearing agency and providing financial management oversight and direction to the business and affairs of the clearing agency;

(d) implementing policies and processes to identify, address, and manage potential conflicts of interest of board members;

(e) regularly reviewing the board of directors' and senior management's performance and the performance of each individual member; and

(f) a requirement that these committees,

(i) where the committee is a board committee, be chaired by a sufficiently knowledgeable individual who is independent of the clearing agency,

(ii) subject to clause (iii), have an appropriate representation by individuals who are independent of the clearing agency; and

(iii) where the committee is the audit or risk committee, have an appropriate representation by individuals who are

(A) independent of the clearing agency, and

(B) not employees or executive officers of a participant or their immediate family members.

Division 2 – Default management:

Use of own capital

4.5. A recognized clearing agency that operates as a central counterparty must dedicate and use a reasonable portion of its own capital to cover losses resulting from one or more participant defaults prior to applying the collateral of, or other prefunded financial resources contributed by, the non-defaulting participants.

Division 3 – Operational risk:

Systems requirements

4.6. A recognized clearing agency must, for each of the systems that support its clearing, settlement and depository functions,

(a) develop and maintain,

(i) an adequate system of internal controls over its systems that support the clearing agency's operations and services, and

(ii) adequate information technology general controls, including without limitation, controls relating to information systems operations, information security, change management, problem management, network support and system software support; and

(b) in accordance with prudent business practice, on a reasonably frequent basis and, in any event, at least annually,

(i) make reasonable current and future capacity estimates, and

(ii) conduct capacity stress tests to determine the ability of those systems to process transactions in an accurate, timely and efficient manner, and

(c) promptly notify the regulator or, in Québec, the securities regulatory authority of any material systems failure, malfunction, delay or security breach and provide timely updates on the status of the failure, malfunction, delay or security breach, the resumption of service and the results of the clearing agency's internal review of the failure, malfunction, delay or security breach.

Systems reviews

4.7. (1) A recognized clearing agency must annually engage a qualified party to conduct an independent systems review and vulnerability assessment and prepare a report in accordance with established audit standards and best industry practices to ensure that the clearing agency is in compliance with paragraph 4.6(a) and section 4.9.

(2) The clearing agency must provide the report resulting from the review conducted under subsection (1) to,

(a) its board of directors, or audit committee, promptly upon the report's completion; and

(b) the regulator or, in Québec, the securities regulatory authority, within the earlier of 30 days of providing the report to its board of directors or the audit committee or 60 days after the calendar year end.

Clearing agency technology requirements and testing facilities

4.8. (1) A recognized clearing agency must make publicly available, in their final form, all technology requirements regarding interfacing with or accessing the clearing agency,

(a) if operations have not begun, sufficiently in advance of operations to allow a reasonable period for testing and system modification by participants, and

(b) if operations have begun, sufficiently in advance of implementing a material change to technology requirements to allow a reasonable period for testing and system modification by participants.

(2) After complying with subsection (1), the clearing agency must make available testing facilities for interfacing with or accessing the clearing agency,

(a) if operations have not begun, sufficiently in advance of operations to allow a reasonable period for testing and system modification by participants, and

(b) if operations have begun, sufficiently in advance of implementing a material change to technology requirements to allow a reasonable period for testing and system modification by participants.

(3) The clearing agency must not begin operations until it has complied with paragraphs (1)(a) and (2)(a).

(4) Paragraphs (1)(b) and (2)(b) do not apply to the clearing agency if,

(a) the change to its technology requirements must be made immediately to address a failure, malfunction or material delay of its systems or equipment,

(b) the clearing agency immediately notifies the securities regulatory authority of its intention to make the change to its technology requirements, and

(c) the clearing agency publicly discloses the changed technology requirements as soon as practicable.

Testing of business continuity plans

4.9. A recognized clearing agency must test its business continuity plans, including its disaster recovery plans, according to prudent business practices and on a reasonably frequent basis and, in any event, at least annually.

Outsourcing

4.10. If a recognized clearing agency outsources a critical service or system to a service provider, including to an affiliate or associate of the clearing agency, the clearing agency must,

(a) establish, implement, maintain and enforce written policies and procedures to conduct suitable due diligence for selecting service providers to which a critical service and system may be outsourced and for the evaluation and approval of those outsourcing arrangements;

(b) identify any conflicts of interest between the clearing agency and the service provider to which a critical service and system is outsourced, and establish, implement, maintain and enforce written policies and procedures to mitigate and manage those conflicts of interest;

(c) enter into a written contract with the service provider to which a critical service or system is outsourced that,

(i) is appropriate for the materiality and nature of the outsourced activities,

(ii) includes service level provisions, and

(iii) provides for adequate termination procedures;

(d) maintain access to the books and records of the service provider relating to the outsourced activities;

(e) ensure that the securities regulatory authority has the same access to all data, information and systems maintained by the service provider on behalf of the clearing agency that it would have absent the outsourcing arrangements;

(f) ensure that all persons conducting audits or independent reviews of the clearing agency under this Regulation have appropriate access to all data, information and systems maintained by the service provider on behalf of the clearing agency that such persons would have absent the outsourcing arrangements,

(g) take appropriate measures to determine that the service provider to which a critical service or system is outsourced establishes, maintains and periodically tests an appropriate business continuity plan, including a disaster recovery plan;

(h) take appropriate measures to ensure that the service provider protects the clearing agency's proprietary information and participants' confidential information, including taking measures to protect information from loss, thefts, vulnerabilities, threats, and unauthorized access, copying, use, and modification, and discloses it only in circumstances where legislation or an order of a court or tribunal of competent jurisdiction requires the disclosure of such information; and

(i) establish, implement, maintain and enforce written policies and procedures to monitor the ongoing performance of the service provider's contractual obligations under the outsourcing arrangements.

Division 4 – Participation requirements:

Access requirements and due process

4.11. (1) A recognized clearing agency must not,

(a) unreasonably prohibit, condition or limit access by a person to the services offered by it;

(b) permit unreasonable discrimination among its participants or the customers of its participants;

(c) impose any burden on competition that is not reasonably necessary and appropriate;

(d) unreasonably require the use or purchase of another service for a person to utilize the clearing agency's services offered by it; and

(e) impose fees and other material costs on its participants that are unfairly and inequitably allocated among the participants.

(2) For any decision made by the clearing agency that adversely affects a participant or an applicant that applies to become a participant, the clearing agency must ensure that,

(a) the participant or applicant is given an opportunity to be heard or make representations; and

(b) it keeps records of, gives reasons for, and provides for reviews of its decisions, including, for each applicant, the reasons for granting access or for denying or limiting access to the applicant, as the case may be.

(3) Nothing in subsection (2) shall be construed as to limit or prevent the clearing agency from taking timely action in accordance with its rules and procedures to manage the default of one or more participants or in connection with the clearing agency's recovery or orderly wind-down, whether or not such action adversely affects a participant.

CHAPTER 5
BOOKS AND RECORDS AND LEGAL ENTITY IDENTIFIER

Books and records

5.1. (1) A recognized clearing agency or exempt clearing agency must keep such books and records and other documents as are necessary to account for the conduct of its clearing, settlement and depository activities, its business transactions and financial affairs and must keep such other books, records and documents as may otherwise be required under securities legislation.

(2) The clearing agency must retain the books and records maintained under this section

(a) for a period of 7 years from the date the record was made or received, whichever is later;

(b) in a safe location and a durable form; and

(c) in a manner that permits it to be provided promptly to the securities regulatory authority upon request.

Legal Entity Identifier

5.2. (1) In this section,

"Global Legal Entity Identifier System" means the system for unique identification of parties to financial transactions developed by the Legal Entity Identifier System Regulatory Oversight Committee; and

"LEI Regulatory Oversight Committee" means the international working group established by the Finance Ministers and the Central Bank Governors of the Group of Twenty nations and the Financial Stability Board, under the Charter of the Regulatory Oversight Committee for the Global Legal Entity Identifier System dated November 5, 2012.

(2) For the purposes of any recordkeeping and reporting requirements required under securities legislation, a recognized clearing agency or exempt clearing agency must identify itself by means of a single legal entity identifier.

(3) Each of the following rules apply to legal entity identifiers:

(a) a legal entity identifier must be a unique identification code assigned to the clearing agency in accordance with the standards set by the Global Legal Entity Identifier System, and

(b) the clearing agency must comply with all applicable requirements imposed by the Global Legal Entity Identifier System.

(4) Despite subsection (3), if the Global Legal Entity Identifier System is unavailable to the clearing agency, all of the following rules apply:

(a) the clearing agency must obtain a substitute legal entity identifier which complies with the standards established by the LEI Regulatory Oversight Committee for pre-legal entity identifiers,

(b) the clearing agency must use the substitute legal entity identifier until a legal entity identifier is assigned to the clearing agency in accordance with the standards set by the Global Legal Entity Identifier System as required under paragraph (3)(a), and

(c) after the holder of a substitute legal entity identifier is assigned a legal entity identifier in accordance with the standards set by the Global Legal Entity Identifier System as required under paragraph (3)(a), the clearing agency must ensure that it is identified only by the assigned identifier.

CHAPTER 6
EXEMPTIONS

Exemption

6.1. (1) The regulator, except in Québec, or the securities regulatory authority may grant an exemption from the provisions of this Regulation, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.

(2) Despite subsection (1), in Ontario, only the regulator may grant an exemption.

(3) Except in Ontario, an exemption referred to in subsection (1) is granted under the statute referred to in Appendix B of Regulation 14-101 respecting Definitions opposite the name of the local jurisdiction.

CHAPTER 7
EFFECTIVE DATES AND TRANSITION

Effective dates and transitions

7.1. (1) Except as provided in subsections (2) to (4), this Regulation comes into force on October ***, 2015.

(2) The requirement in section 3.1 to implement rules, procedures or operations designed to ensure that a recognized clearing agency meets or exceeds Standard 14 in Appendix A to this Regulation comes into force on ***.

(3) The requirement in section 3.1 to implement rules, procedures or operations designed to ensure that a recognized clearing agency meets or exceeds section 3.4 of Standard 3 and section 15.3 of Standard 15 in Appendix A to this Regulation comes into force on ***.

(4) The requirement in section 3.1 to implement rules, procedures or operations designed to ensure that a recognized clearing agency meets or exceeds Standard 19 in Appendix A to this Regulation comes into force on ***.

Appendix A
Risk Management Standards Applicable to Recognized Clearing Agencies

Standard 1: *Legal basis* - A recognized clearing agency has a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

1.1. The legal basis provides a high degree of certainty for each material aspect of the clearing agency's activities in all relevant jurisdictions.

1.2. The clearing agency has rules, procedures and contracts that are clear, understandable and consistent with relevant laws and regulations.

1.3. The clearing agency articulates the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way.

1.4. The clearing agency has rules, procedures and contracts that are enforceable in all relevant jurisdictions. There is a high degree of certainty that actions taken by the clearing agency under its rules and procedures will not be voided, reversed or subject to stays.

1.5. If the clearing agency conducts business in multiple jurisdictions, it identifies and mitigates the risks arising from any potential conflicts of laws across jurisdictions.

Standard 2: *Governance* – A recognized clearing agency has governance arrangements that are clear and transparent, promote the safety and efficiency of the clearing agency, support the stability of the broader financial system, other relevant public interest considerations, and the objectives of relevant stakeholders.

2.1. The clearing agency has objectives that place a high priority on the safety and efficiency of the clearing agency and explicitly support financial stability and other relevant public interest considerations.

2.2. The clearing agency has documented governance arrangements that provide clear and direct lines of responsibility and accountability. These arrangements are disclosed to owners, relevant authorities, participants, and, at a more general level, the public.

2.3. The roles and responsibilities of the clearing agency's board of directors are clearly specified, and there are documented governance procedures for its functioning, including procedures to identify, address and manage member conflicts of interest. The board of directors reviews both its overall performance and the performance of its individual board members regularly.

2.4. The board of directors contains suitable members with the appropriate skills and incentives to fulfill its multiple roles. This typically requires the inclusion of non-executive board member(s).

2.5. The roles and responsibilities of management are clearly specified. The clearing agency's management has the appropriate experience, a mix of skills, and the integrity necessary to discharge its responsibilities for the operation and risk management of the clearing agency.

2.6. The board of directors establishes a clear, documented risk-management framework that includes the clearing agency's risk-tolerance policy, assigns responsibilities and accountability for risk decisions, and addresses decision making in crises and emergencies. Governance arrangements ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board of directors.

2.7. The board of directors ensures that the clearing agency's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders. Major decisions are clearly disclosed to relevant stakeholders and, where there is a broad market impact, the public.

Standard 3: *Framework for the comprehensive management of risks* – A recognized clearing agency has a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational and other risks.

3.1. The clearing agency has risk-management policies, procedures, and systems that enable it to identify, measure, monitor and manage the range of risks that arise in or are borne by it. The risk-management framework is subject to periodic review.

3.2. The clearing agency provides incentives to participants and, where relevant, their customers to manage and contain the risks they pose to the clearing agency.

3.3. The clearing agency regularly reviews the material risks it bears from and poses to other entities (such as other clearing agencies, payments systems, trade repositories, settlement banks, liquidity providers and service providers) as a result of interdependencies and develops appropriate risk-management tools to address these risks.

3.4. The clearing agency identifies scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assesses the effectiveness of a full range of options for recovery or orderly wind-down. The clearing agency prepares appropriate plans for its recovery or orderly wind-down based on the results of that assessment. Where applicable, the clearing agency also provides relevant authorities with the information needed for purposes of resolution planning.

Standard 4: *Credit risk* – A recognized clearing agency that operates as a central counterparty or securities settlement system effectively measures, monitors, and manages its credit exposures to participants and those arising from its clearing and settlement processes. The clearing agency maintains sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, the clearing agency, if it operates as a central counterparty, that is involved in activities with a more-complex risk profile or that is systemically important in multiple jurisdictions maintains additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the clearing agency in extreme but plausible market conditions. All other clearing agencies that operate as a central counterparty maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure to the clearing agency in extreme but plausible market conditions.

4.1. The clearing agency establishes a robust framework to manage its credit exposures to its participants and the credit risks arising from its payment, clearing, and settlement processes. Credit exposure may arise from current exposures, potential future exposures, or both.

4.2. The clearing agency identifies sources of credit risk, routinely measures and monitors its credit exposures, and uses appropriate risk-management tools to control these risks.

4.3. The clearing agency, if it operates as a securities settlement system, covers its current exposures and, where they exist, potential future exposures to each participant fully with a high degree of confidence using collateral and other equivalent financial resources. Where the clearing agency operates as a deferred net settlement system, in which there is no settlement guarantee but where its participants face credit exposures arising from its payment, clearing and settlement processes, the clearing agency maintains, at a minimum, sufficient resources to cover the exposures of the two participants and their affiliates that would create the largest aggregate credit exposure in the system.

4.4. The clearing agency that operates as a central counterparty covers its current and potential future exposures to each participant fully with a high degree of confidence using margin and other prefunded financial resources. In addition, the clearing agency that operates as a central counterparty and that is involved in activities with a more-complex risk profile or is systemically important in multiple jurisdictions maintains additional financial resources to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the clearing agency in extreme but plausible market conditions. All other clearing agencies that operate as a central counterparty maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure for the clearing agency in extreme but plausible market conditions. In all cases, the clearing agency that operates as a central counterparty documents its supporting rationale for, and has appropriate governance arrangements relating to, the amount of total financial resources it maintains.

4.5. The clearing agency that operates as a central counterparty determines the amount and regularly tests the sufficiency of its total financial resources available in the event of a default or multiple defaults in extreme but plausible market conditions through rigorous stress testing. The clearing agency

has clear procedures to report the results of its stress tests to appropriate decision makers at the clearing agency and to use these results to evaluate the adequacy of and adjust its total financial resources. Stress tests are performed daily using standard and predetermined parameters and assumptions. On at least a monthly basis, the clearing agency performs a comprehensive and thorough analysis of stress testing scenarios, models, and underlying parameters and assumptions used to ensure they are appropriate for determining the clearing agency's required level of default protection in light of current and evolving market conditions. The clearing agency performs this analysis of stress testing more frequently when the products cleared or markets served display high volatility, become less liquid, or when the size or concentration of positions held by the clearing agency's participants increases significantly. A full validation of the clearing agency's risk management model is performed at least annually.

4.6. In conducting stress testing, the clearing agency that operates as a central counterparty considers the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods. Scenarios include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.

4.7. The clearing agency establishes explicit rules and procedures that address fully any credit losses it may face as a result of any individual or combined default among its participants with respect to any of their obligations to the clearing agency. These rules and procedures address how potentially uncovered credit losses would be allocated, including the repayment of any funds the clearing agency may borrow from liquidity providers. These rules and procedures also indicate the clearing agency's process to replenish any financial resources that the clearing agency may employ during a stress event, so that the clearing agency can continue to operate in a safe and sound manner.

Standard 5: *Collateral* – A recognized clearing agency that operates as a central counterparty or securities settlement system and requires collateral to manage its or its participants' credit exposure, accepts collateral with low credit, liquidity, and market risks. The clearing agency also sets and enforces appropriately conservative haircuts and concentration limits.

5.1. The clearing agency generally limits the assets it (routinely) accepts as collateral to those with low credit, liquidity and market risks.

5.2. The clearing agency establishes prudent valuation practices and develops haircuts that are regularly tested and take into account stressed market conditions.

5.3. In order to reduce the need for procyclical adjustments, the clearing agency establishes stable and conservative haircuts that are calibrated to include periods of stressed market conditions, to the extent practicable and prudent.

5.4. The clearing agency avoids concentrated holdings of certain assets where this would significantly impair the ability to liquidate such assets quickly without significant adverse price effects.

5.5. Where the clearing agency accepts cross-border collateral, it mitigates the risks associated with its use and ensures that the collateral can be used in a timely manner.

5.6. The clearing agency uses a collateral management system that is well-designed and operationally flexible.

Standard 6: *Margin* – A recognized clearing agency that operates as a central counterparty covers its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.

6.1. The clearing agency has a margin system that establishes margin levels commensurate with the risks and particular attributes of each product, portfolio and market it serves.

6.2. The clearing agency has a reliable source of timely price data for its margin system. The clearing agency also has procedures and sound valuation models for addressing circumstances in which pricing data are not readily available or reliable.

6.3. The clearing agency adopts initial margin models and parameters that are risk-based and generate margin requirements sufficient to cover its potential future exposure to participants in the interval between the last margin collection and the close out of positions following a participant default. Initial

margin meets an established single-tailed confidence level of at least 99 percent with respect to the estimated distribution of future exposure. For a clearing agency that calculates margin at the portfolio level, this requirement applies to each portfolio's distribution of future exposure. For a clearing agency that calculates margin at more-granular levels, such as at the subportfolio level or by product, the requirement is met for the corresponding distributions of future exposure. The model (a) uses a conservative estimate of the time horizons for the effective hedging or close out of the particular types of products cleared by the clearing agency (including in stressed market conditions), (b) has an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products, and (c) to the extent practicable and prudent, limits the need for destabilising, procyclical changes.

6.4. The clearing agency marks participant positions to market and collects variation margin at least daily to limit the build-up of current exposures. The clearing agency has the authority and operational capacity to make intraday margin calls and payments, both scheduled and unscheduled, to participants.

6.5. In calculating margin requirements, the clearing agency may allow offsets or reductions in required margin across products that it clears or between products that it and another central counterparty clear, if the risk of one product is significantly and reliably correlated with the risk of the other product. Where the clearing agency is authorized to offer cross-margining with one or more other central counterparties, it and the other central counterparties have appropriate safeguards and harmonised overall risk-management systems.

6.6. The clearing agency analyses and monitors its model performance and overall margin coverage by conducting rigorous daily backtesting and at least monthly, and more frequently where appropriate, sensitivity analysis. The clearing agency regularly conducts an assessment of the theoretical and empirical properties of its margin model for all products it clears. In conducting sensitivity analysis of the model's coverage, the clearing agency takes into account a wide range of parameters and assumptions that reflect possible market conditions, including the most volatile periods that have been experienced by the markets it serves and extreme changes in the correlations between prices.

6.7. The clearing agency regularly reviews and validates its margin system.

Standard 7: *Liquidity risk* – A recognized clearing agency that operates as a central counterparty or securities settlement system effectively measures, monitors, and manages its liquidity risk. The clearing agency maintains sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the clearing agency in extreme but plausible market conditions.

7.1. The clearing agency has a robust framework to manage its liquidity risks from its participants, settlement banks, nostro agents, custodian banks, liquidity providers, and other entities.

7.2. The clearing agency has effective operational and analytical tools to identify, measure, and monitor its settlement and funding flows on an ongoing and timely basis, including its use of intraday liquidity.

7.3. The clearing agency that performs the services of a securities settlement system, including one that employs a deferred net settlement mechanism, maintains sufficient liquid resources in all relevant currencies to effect same-day settlement, and where appropriate intraday or multiday settlement, of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation in extreme but plausible market conditions.

7.4. The clearing agency that operates as a central counterparty maintains sufficient liquid resources in all relevant currencies to settle securities-related payments, make required variation margin payments, and meet other payment obligations on time with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate payment obligation to the clearing agency in extreme but plausible market conditions. In addition, the clearing agency that operates as a central counterparty, and that is involved in activities with a more-complex risk profile or is systemically important in multiple jurisdictions, considers maintaining additional liquidity resources sufficient to cover a wider range of potential stress scenarios that should include, but not be limited to, the default of the two

participants and their affiliates that would generate the largest aggregate payment obligation to the clearing agency in extreme but plausible market conditions.

7.5. For the purpose of meeting its minimum liquid resource requirement, the clearing agency's qualifying liquid resources in each currency include cash at the central bank of issue or at creditworthy commercial banks, committed lines of credit, committed foreign exchange swaps, and committed repurchase agreements, as well as highly marketable collateral held in custody and investments that are readily available and convertible into cash with prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions. If the clearing agency has access to routine credit at the central bank of issue, the clearing agency may count such access as part of the minimum requirement to the extent it has collateral that is eligible for pledging to, or for conducting other appropriate forms of transactions with, the relevant central bank. All such resources are available when needed.

7.6. The clearing agency may supplement its qualifying liquid resources with other forms of liquid resources. If the clearing agency does so, then these liquid resources are in the form of assets that are likely to be saleable or acceptable as collateral for lines of credit, swaps, or repurchase agreements on an ad hoc basis following a default, even if this cannot be reliably prearranged or guaranteed in extreme market conditions. Even if the clearing agency does not have access to routine central bank credit, it still takes account of what collateral is typically accepted by the relevant central bank, as such assets may be more likely to be liquid in stressed circumstances. The clearing agency does not assume the availability of emergency central bank credit as a part of its liquidity plan.

7.7. The clearing agency obtains a high degree of confidence, through rigorous due diligence, that each provider of its minimum required qualifying liquid resources, whether a participant of the clearing agency or an external party, has sufficient information to understand and to manage its associated liquidity risks, and that it has the capacity to perform as required under its commitment. Where relevant to assessing a liquidity provider's performance reliability with respect to a particular currency, a liquidity provider's potential access to credit from the central bank of issue may be taken into account. The clearing agency regularly tests its procedures for accessing its liquid resources at a liquidity provider.

7.8. The clearing agency with access to central bank accounts, payment services, or securities services uses these services, where practical, to enhance its management of liquidity risk.

7.9. The clearing agency determines the amount and regularly tests the sufficiency of its liquid resources through rigorous stress testing. The clearing agency has clear procedures to report the results of its stress tests to appropriate decision makers at the clearing agency and to use these results to evaluate the adequacy of and adjust its liquidity risk-management framework. In conducting stress testing, the clearing agency considers a wide range of relevant scenarios. Scenarios include relevant peak historic price volatilities, shifts in other market factors such as price determinants and yield curves, multiple defaults over various time horizons, simultaneous pressures in funding and asset markets, and a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions. Scenarios also take into account the design and operation of the clearing agency, include all entities that may pose material liquidity risks to the clearing agency (such as settlement banks, nostro agents, custodian banks, liquidity providers, and linked clearing agencies, trade repositories and payment systems), and where appropriate, cover a multiday period. In all cases, the clearing agency documents its supporting rationale for, and has appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.

7.10. The clearing agency establishes explicit rules and procedures that enable the clearing agency to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations on time following any individual or combined default among its participants. These rules and procedures address unforeseen and potentially uncovered liquidity shortfalls which aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations. These rules and procedures also indicate the clearing agency's process to replenish any liquidity resources it may employ during a stress event, so that it can continue to operate in a safe and sound manner.

Standard 8: *Settlement finality* – A recognized clearing agency that operates as a central counterparty or securities settlement system provides clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, the clearing agency provides final settlement intraday or in real time.

8.1. The clearing agency's rules and procedures clearly define the point at which settlement is final.

8.2. The clearing agency completes final settlement no later than the end of the value date, and preferably intraday or in real time, to reduce settlement risk. The clearing agency that operates as a securities settlement system generally considers adopting real-time gross settlement or multiple-batch processing during the settlement day.

8.3. The clearing agency clearly defines the point after which unsettled payments, transfer instructions, or other obligations may not be revoked by a participant.

Standard 9: *Money settlements* – A recognized clearing agency that operates as a central counterparty or securities settlement system conducts its money settlements in central bank money, where practical and available. If central bank money is not used, the clearing agency minimizes and strictly controls the credit and liquidity risk arising from the use of commercial bank money.

9.1. The clearing agency conducts its money settlements in central bank money, where practical and available, to avoid credit and liquidity risks.

9.2. If central bank money is not used, the clearing agency conducts its money settlements using a settlement asset with little or no credit or liquidity risk.

9.3. If the clearing agency settles in commercial bank money, it monitors, manages, and limits its credit and liquidity risks arising from the commercial settlement banks. In particular, the clearing agency establishes and monitors adherence to strict criteria for its settlement banks that take account of, among other things, their regulation and supervision, creditworthiness, capitalisation, access to liquidity, and operational reliability. The clearing agency also monitors and manages the concentration of credit and liquidity exposures to its commercial settlement banks.

9.4. If the clearing agency conducts money settlements on its own books, it minimizes and strictly controls its credit and liquidity risks.

9.5. The clearing agency's legal agreements with any settlement banks state clearly when transfers on the books of individual settlement banks are expected to occur, that transfers are to be final when effected, and that funds received are to be transferable as soon as possible, at a minimum by the end of the day and ideally intraday, in order to enable the clearing agency and its participants to manage credit and liquidity risks.

Standard 10: *Physical deliveries* – A recognized clearing agency clearly states its obligations with respect to the delivery of physical instruments or commodities and identifies, monitors and manages the risks associated with such physical deliveries.

10.1. The clearing agency's rules clearly state its obligations with respect to the delivery of physical instruments or commodities.

10.2. The clearing agency identifies, monitors and manages the risks and costs associated with the storage and delivery of physical instruments and commodities.

Standard 11: *Central securities depositories* – A recognized clearing agency that operates as a central securities depository has appropriate rules and procedures to help ensure the integrity of securities issues and minimizes and manages the risks associated with the safekeeping and transfer of securities. The clearing agency maintains securities in an immobilized or dematerialized form for their transfer by book entry.

11.1. The clearing agency has appropriate rules, procedures and controls, including robust accounting practices, to safeguard the rights of securities issuers and holders, prevent the unauthorised creation or deletion of securities, and conduct periodic and at least daily reconciliation of securities issues it maintains.

11.2. The clearing agency prohibits overdrafts and debit balances in securities accounts.

11.3. The clearing agency maintains securities in an immobilized or dematerialised form for their transfer by book entry. Where appropriate, the clearing agency provides incentives to immobilize or dematerialise securities.

11.4. The clearing agency protects assets against custody risk through appropriate rules and procedures consistent with its legal framework.

11.5. The clearing agency employs a robust system that ensures segregation between its own assets and the securities of its participants and segregation among the securities of participants. Where supported by the legal framework, the clearing agency also supports operationally the segregation of securities belonging to a participant's customers on the participant's books and facilitates the transfer of customer holdings.

11.6. The clearing agency identifies, measures, monitors, and manages its risks from other activities that it may perform; additional tools may be necessary in order to address these risks.

Standard 12: *Exchange-of-value settlement systems* – Where a recognized clearing agency operates as a central counterparty or securities settlement system and settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it eliminates principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.

12.1. The clearing agency that is an exchange-of-value settlement system eliminates principal risk by ensuring that the final settlement of one obligation occurs if and only if the final settlement of the linked obligation also occurs, regardless of whether the clearing agency settles on a gross or net basis and when finality occurs.

Standard 13: *Participant default rules and procedures* – A recognized clearing agency has effective and clearly defined rules and procedures to manage a participant default. These rules and procedures are designed to ensure that the clearing agency can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

13.1 The clearing agency has default rules and procedures that enable the clearing agency to continue to meet its obligations in the event of a participant default and that address the replenishment of resources following a default.

13.2 The clearing agency is well prepared to implement its default rules and procedures, including any appropriate discretionary procedures provided for in its rules.

13.3 The clearing agency publicly discloses key aspects of its default rules and procedures.

13.4 The clearing agency involves its participants and other stakeholders in the testing and review of the clearing agency's default procedures, including any close-out procedures. Such testing and review is conducted at least annually or following material changes to the clearing agency's rules and procedures to ensure that they are practical and effective.

Standard 14: *Segregation and portability* – A recognized clearing agency that operates as a central counterparty has rules and procedures that enable the segregation and portability of positions of a participant's customers and the collateral provided to the clearing agency with respect to those positions.

14.1. The clearing agency has, at a minimum, segregation and portability arrangements that effectively protect a participant's customers' positions and related collateral from the default or insolvency of that participant. If the clearing agency additionally offers protection of such customer positions and collateral against the concurrent default of the participant and a fellow customer, the clearing agency takes steps to ensure that such protection is effective.

14.2. The clearing agency employs an account structure that enables it readily to identify positions of a participant's customers and to segregate related collateral. The clearing agency maintains customer positions and collateral in individual customer accounts or in omnibus customer accounts.

14.3. The clearing agency structures its portability arrangements in a way that makes it highly likely that the positions and collateral of a defaulting participant's customers will be transferred to one or more other participants.

14.4. The clearing agency discloses its rules, policies, and procedures relating to the segregation and portability of a participant's customers' positions and related collateral. In particular, the clearing agency discloses whether customer collateral is protected on an individual or omnibus basis. In addition, the clearing agency discloses any constraints, such as legal or operational constraints, that may impair its ability to segregate or port the participant's customers' positions and related collateral.

Standard 15: *General business risk* – A recognized clearing agency identifies, monitors, and manages its general business risk and holds sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialise. Further, liquid net assets are at all times sufficient to ensure a recovery or orderly wind-down of critical operations and services.

15.1. The clearing agency has robust management and control systems to identify, monitor, and manage general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses.

15.2. The clearing agency holds liquid net assets funded by equity (such as common stock, disclosed reserves, or other retained earnings) so that it can continue operations and services as a going concern if it incurs general business losses. The amount of liquid net assets funded by equity the clearing agency holds is determined by its general business risk profile and the length of time required to achieve a recovery or orderly wind-down, as appropriate, of its critical operations and services if such action is taken.

15.3. The clearing agency maintains a viable recovery or orderly wind-down plan and holds sufficient liquid net assets funded by equity to implement this plan. At a minimum, the clearing agency holds liquid net assets funded by equity equal to at least six months of current operating expenses. These assets are in addition to resources held to cover participant defaults and other risks required to be covered under the financial resources Standards. However, equity held under international risk-based capital standards can be included where relevant and appropriate to avoid duplicate capital requirements.

15.4. Assets held to cover general business risk are of high quality and sufficiently liquid in order to allow the clearing agency to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.

15.5. The clearing agency maintains a viable plan for raising additional equity should its equity fall close to or below the amount needed. This plan is approved by the board of directors and updated regularly.

Standard 16: *Custody and investment risks* – A recognized clearing agency safeguards its own and its participants' assets and minimizes the risk of loss on and delay in access to these assets. The clearing agency's investments are in instruments with minimal credit, market, and liquidity risks.

16.1. The clearing agency holds its own and its participants' assets at supervised and regulated entities that have robust accounting practices, safekeeping procedures, and internal controls that fully protect such assets.

16.2. The clearing agency has prompt access to its assets and the assets provided by participants, when required.

16.3. The clearing agency evaluates and understands its exposures to its custodian banks, taking into account the full scope of its relationships with each.

16.4. The clearing agency's investment strategy is consistent with its overall risk-management strategy and fully disclosed to its participants, and investments are secured by, or claims on, high-quality obligors. These investments allow for quick liquidation with little, if any, adverse price effect.

Standard 17: *Operational risks* – A recognized clearing agency identifies the plausible sources of operational risk, both internal and external, and mitigates their impact through the use of appropriate systems, policies, procedures, and controls. Systems are designed to ensure a high degree of security and operational reliability and have adequate, scalable capacity. Business continuity management aims for timely recovery of operations and fulfillment of the clearing agency's obligations, including in the event of a wide-scale or major disruption.

17.1. The clearing agency establishes a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks.

17.2. The clearing agency's board of directors clearly defines the roles and responsibilities for addressing operational risk and endorses the clearing agency's operational risk-management framework. Systems, operational policies, procedures, and controls are reviewed, audited, and tested periodically and after significant changes.

17.3. The clearing agency has clearly defined operational reliability objectives and has policies in place that are designed to achieve those objectives.

17.4. The clearing agency ensures that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives.

17.5. The clearing agency has comprehensive physical and information security policies that address all potential vulnerabilities and threats.

17.6. The clearing agency has a business continuity plan that addresses events posing a significant risk of disrupting operations, including events that could cause a wide-scale or major disruption. The plan incorporates the use of a secondary site and is designed to ensure that critical information technology (IT) systems can resume operations within two hours following disruptive events. The plan is designed to enable the clearing agency to complete settlement by the end of the day of the disruption, even in extreme circumstances. The clearing agency regularly tests these arrangements.

17.7. The clearing agency identifies, monitors, and manages the risks that key participants, other clearing agencies, trade repositories, payment systems, and service and utility providers might pose to its operations. In addition, the clearing agency identifies, monitors, and manages the risks its operations might pose to other clearing agencies, trade repositories, and payment systems.

Standard 18: *Access and participation requirements* – A recognized clearing agency has objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.

18.1. The clearing agency allows for fair and open access to its services, including by direct and, where relevant, indirect participants and other clearing agencies, payment systems and trade repositories, based on reasonable risk-related participation requirements.

18.2. The clearing agency's participation requirements are justified in terms of the safety and efficiency of the clearing agency and the markets it serves, are tailored to and commensurate with the clearing agency's specific risks, and are publicly disclosed. Subject to maintaining acceptable risk control standards, the clearing agency endeavours to set requirements that have the least-restrictive impact on access that circumstances permit.

18.3. The clearing agency monitors compliance with its participation requirements on an ongoing basis and has clearly defined and publicly disclosed procedures for facilitating the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.

Standard 19: *Tiered participation arrangements* – A recognized clearing agency identifies, monitors, and manages the material risks to the clearing agency arising from any tiered participation arrangements.

19.1. The clearing agency ensures that its rules, procedures, and agreements allow it to gather basic information about indirect participation in order to identify, monitor, and manage any material risks to the clearing agency arising from such tiered participation arrangements.

19.2. The clearing agency identifies material dependencies between direct and indirect participants that might affect the clearing agency.

19.3. The clearing agency identifies indirect participants responsible for a significant proportion of transactions processed by the clearing agency and indirect participants whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the clearing agency in order to manage the risks arising from these transactions.

19.4. The clearing agency regularly reviews risks arising from tiered participation arrangements and takes mitigating action when appropriate.

Standard 20: *Links with other financial market infrastructures* – A recognized clearing agency that establishes a link with one or more clearing agencies or trade repositories identifies, monitors, and manages link-related risks.

20.1. Before entering into a link and on an ongoing basis once the link is established, the clearing agency identifies, monitors, and manages all potential sources of risk arising from the link. Links are designed such that the clearing agency is able to observe the other Standards.

20.2. A link has a well-founded legal basis, in all relevant jurisdictions, that supports its design and provides adequate protection to the clearing agencies and trade repositories involved in the link.

20.3. Linked central securities depositories measure, monitor, and manage the credit and liquidity risks arising from each other. Any credit extensions between central securities depositories are covered fully with high-quality collateral and are subject to limits.

20.4. Provisional transfers of securities between linked central securities depositories are prohibited or, at a minimum, the retransfer of provisionally transferred securities are prohibited prior to the transfer becoming final.

20.5. An investor central securities depository only establishes a link with an issuer central securities depository if the link provides a high level of protection for the rights of the investor central securities depository's participants.

20.6. An investor central securities depository that uses an intermediary to operate a link with an issuer central securities depository measures, monitors, and manages the additional risks (including custody, credit, legal, and operational risks) arising from the use of the intermediary.

20.7. Before entering into a link with another central counterparty, a central counterparty identifies and manages the potential spill-over effects from the default of the linked central counterparty. If a link has three or more central counterparties, each central counterparty identifies, assesses, and manages the risks of the collective link.

20.8. Each central counterparty in a central counterparty link is able to cover, at least on a daily basis, its current and potential future exposures to the linked central counterparty and its participants, if any, fully with a high degree of confidence without reducing the central counterparty's ability to fulfill its obligations to its own participants at any time.

Standard 21: *Efficiency and effectiveness* – A recognized clearing agency is efficient and effective in meeting the requirements of its participants and the markets it serves.

21.1. The clearing agency is designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures.

21.2. The clearing agency has clearly defined goals and objectives that are measurable and achievable, such as in the areas of minimum service levels, risk-management expectations, and business priorities.

21.3. The clearing agency has established mechanisms for the regular review of its efficiency and effectiveness.

Standard 22: *Communication procedures and standards* – A recognized clearing agency uses, or at a minimum accommodates, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, depository, and recording.

22.1. The clearing agency uses, or at a minimum accommodates, internationally accepted communication procedures and standards.

Standard 23: *Disclosure of rules, key procedures, and market data* – A recognized clearing agency has clear and comprehensive rules and procedures and provides sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the clearing agency. All relevant rules and key procedures are publicly disclosed.

23.1. The clearing agency adopts clear and comprehensive rules and procedures that are fully disclosed to participants. Relevant rules and key procedures are also publicly disclosed.

23.2. The clearing agency discloses clear descriptions of the clearing agency's systems' design and operations, as well as the rights and obligations of the clearing agency and its participants, so that participants can assess the risks they would incur by participating in the clearing agency.

23.3. The clearing agency provides all necessary and appropriate documentation and training to facilitate participants' understanding of the clearing agency's rules and procedures and the risks they face from participating in the clearing agency.

23.4 The clearing agency publicly discloses its fees at the level of individual services it offers as well as its policies on any available discounts. The clearing agency provides clear descriptions of priced services for comparability purposes.

23.5. The clearing agency completes regularly and discloses publicly responses to the PFMI Disclosure Framework Document. The clearing agency also, at a minimum, discloses basic data on transaction volumes and values.

FORM 24-102F1
CLEARING AGENCY SUBMISSION TO JURISDICTION AND APPOINTMENT OF AGENT FOR SERVICE OF PROCESS

1. Name of clearing agency (the "Clearing Agency"):

_____

2. Jurisdiction of incorporation, or equivalent, of Clearing Agency:

_____

3. Address of principal place of business of Clearing Agency:

_____

4. Name of the agent for service of process for the Clearing Agency (the "Agent"):

_____

5. Address of Agent for service of process in _____[province of local jurisdiction]:

_____

6. The _____ [name of securities regulatory authority] ("securities regulatory authority") issued an order recognizing the Clearing Agency as a clearing agency pursuant to securities legislation, or the securities regulatory authority issued an order exempting the Clearing Agency from the requirement to be recognized as a clearing agency pursuant to such legislation, on _____.

7. The Clearing Agency designates and appoints the Agent as its agent upon whom may be served a notice, pleading, subpoena, summons or other process in any action, investigation or administrative, criminal, quasi-criminal, penal or other proceeding arising out of or relating to or concerning the activities of the Clearing Agency in _____ [province of local jurisdiction]. The Clearing Agency hereby irrevocably waives any right to challenge service upon its Agent as not binding upon the Clearing Agency.

8. The Clearing Agency agrees to unconditionally and irrevocably attorn to the non-exclusive jurisdiction of (i) the courts and administrative tribunals of _____ [province of local jurisdiction] and (ii) any proceeding in any province or territory arising out of, related to, concerning or in any other manner connected with the regulation and oversight of the activities of the Clearing Agency in _____ [province of local jurisdiction].

9. The Clearing Agency shall file a new submission to jurisdiction and appointment of agent for service of process in this form at least 30 days before the Clearing Agency ceases to be recognized or exempted by the securities regulatory authority, to be in effect for six years from the date it ceases to be recognized or exempted unless otherwise amended in accordance with section 10.

10. Until six years after it has ceased to be a recognized or exempted by the securities regulatory authority, the Clearing Agency shall file an amended submission to jurisdiction and appointment of agent for service of process at least 30 days before any change in the name or above address of the Agent.

11. This submission to jurisdiction and appointment of agent for service of process shall be governed by and construed in accordance with the laws of _____ [province of local jurisdiction].

Dated: _____

_____
Signature of the Clearing Agency

_____
Print name and title of signing officer of the Clearing Agency

AGENT

CONSENT TO ACT AS AGENT FOR SERVICE

I, _____ (name of Agent in full; if Corporation, full Corporate name) of _____ (business address), hereby accept the appointment as agent for service of process of _____ (insert name of Clearing Agency) and hereby consent to act as agent for service pursuant to the terms of the appointment executed by _____ (insert name of Clearing Agency) on _____ (insert date).

Dated: _____

_____
Signature of Agent

_____
Print name of person signing
and, if Agent is not an individual,
the title of the person

FORM 24-102F2
CESSATION OF OPERATIONS REPORT FOR CLEARING AGENCY

1. Identification:

A. Full name of the recognized or exempted clearing agency:

B. Name(s) under which business is conducted, if different from item 1A:

2. Date clearing agency proposes to cease carrying on business as a clearing agency:

3. If cessation of business was involuntary, date clearing agency has ceased to carry on business as a clearing agency:

Exhibits

File all Exhibits with the Cessation of Operations Report. For each exhibit, include the name of the clearing agency, the date of filing of the exhibit and the date as of which the information is accurate (if different from the date of the filing). If any Exhibit required is inapplicable, a statement to that effect shall be furnished instead of such Exhibit.

Exhibit A

The reasons for the clearing agency ceasing to carry on business as a clearing agency.

Exhibit B

A list of all participants in Canada during the last 30 days prior to ceasing business as a clearing agency.

Exhibit C

A description of the alternative arrangements available to participants in respect of the services offered by the clearing agency immediately prior to the cessation of business as a clearing agency.

Exhibit D

A description of all links the clearing agency had immediately prior to the cessation of business as a clearing agency with other clearing agencies or trade repositories.

CERTIFICATE OF CLEARING AGENCY

The undersigned certifies that the information given in this report is true and correct.

DATED at _____ this _____ day of _____ 20 _____

_____
(Name of clearing agency)

_____
(Name of director, officer or partner – please type or print)

_____
(Signature of director, officer or partner)

_____
(Official capacity – please type or print)