

REGULATION 24-503 RESPECTING CLEARING HOUSE, CENTRAL SECURITIES DEPOSITORY AND SETTLEMENT SYSTEM REQUIREMENTS

Securities Act

(chapter V-1.1, s. 331.1, par. (1), (2), (3), (4.1), (9.1), (11), (19), (32.0.1) and (34))

PART 1 DEFINITIONS, INTERPRETATION AND APPLICATION

Definitions

1.1. In this Regulation,

“board of directors” includes, in the case of a recognized clearing house, central securities depository or settlement system that is not a legal person, a group of individuals that acts for the clearing house, the central securities depository or the settlement system in a capacity similar to a board of directors;

“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 bank money” means a liability of a central bank in the form of deposits held at the central bank which can be used for settlement purposes;

“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;

“commercial bank money” means a liability of a commercial bank in the form of deposits held at the commercial bank which can be used for settlement purposes;

“concentration limit” means a limit imposed by a clearing house or a settlement system that restricts a participant’s ability to provide certain collateral assets above a specified threshold established by the clearing house;

“CPSS-IOSCO FMI Disclosure Framework Document” means the disclosure document required to be completed regularly and disclosed publicly by financial market infrastructures in accordance with Principle 23 – *Disclosure of rules, key procedures, and market data* – of the April 2012 report *Principles for financial market infrastructures* published by the Committee on Payment and Settlement Systems (CPSS) and the Board of the International Organization of Securities Commissions (IOSCO); and as more fully described in Annex A – *FMI disclosure template* – of the related December 2012 report *Principles for financial market infrastructures: Disclosure framework and Assessment methodology* published by CPSS and IOSCO;

“current exposure” means the loss that a clearing house or, in some cases, its participants would face immediately if a participant were to default, being the market value or replacement cost of a transaction, or portfolio of transactions within a netting set, with the participant that would be lost upon the latter’s default;

“exempt clearing house, central securities depository or settlement system” means a clearing house, a central securities depository or settlement system that has been granted a decision exempting it from the requirement to be recognized as a clearing house, a central securities depository or a settlement system;

“haircut”, when used in relation to collateral received by a clearing house or a settlement system to manage credit risk, means a risk control measure applied to the collateral whereby its value is calculated by the clearing house as the market value of such collateral reduced by a certain percentage;

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

“link” means, in relation to a clearing house, a central securities depository or settlement system, a set of contractual and operational arrangements that directly or indirectly through an intermediary connects the clearing house, the central securities depository or settlement system and one or more other systems or arrangements for the clearing, depository or settlement of payments or securities or derivatives transactions;

“participant” means a person that has entered into an agreement with a clearing house, a central securities depository or a settlement system to access the services of the clearing house, the central securities depository or settlement system and is bound by its rules and procedures;

“potential future exposure” means any potential credit exposure that a clearing house could face at a future point in time arising from potential fluctuations in the market value of a participant’s open positions between the time they are incurred, or reset to the current market price, and the time they are liquidated or effectively hedged;

“procyclical” means the changes in risk-management requirements or practices that are positively correlated with business or credit cycle fluctuations and that may cause or exacerbate financial instability;

“product”, when used in relation to a clearing house’s depository, clearing or settlement services or to a central securities depository or settlement system, 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;

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

“stress test” or “stress testing” means, except in subsection 3.17(5), a test conducted periodically by a clearing house or a 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 house’s or settlement system’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 a clearing house’s margin system 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 house to reflect current exposures resulting from actual changes in market prices.

Interpretation

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 (chapter V-1.1, r. 25): “accounting principles”, “auditing standards”, “publicly accountable enterprises”, “U.S. AICPA GAAS”, “U.S. GAAP”, and “U.S. PCAOB GAAS”.

1.3. For the purposes of sections 3.4, 3.5 and 3.7, a person is 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% 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

1.4. Unless the context otherwise indicates, Part 3 of this Regulation applies to a recognized central securities depository, a recognized settlement system and a recognized clearing house that acts as, or performs the services of, any of the following:

(a) a central counterparty;

(b) a central securities depository; or

(c) a settlement system.

PART 2

CLEARING HOUSE, CENTRAL SECURITIES DEPOSITORY AND SETTLEMENT SYSTEM RECOGNITION OR EXEMPTION FROM RECOGNITION

Application and initial filing of information

2.1. (1) An applicant for recognition as a clearing house, a central securities depository or a settlement system or for exemption from the requirement to be recognized as a clearing house, a central securities depository or a settlement system must include in its application package:

(a) the applicant’s most recently completed CPSS-IOSCO FMI Disclosure Framework Document;

(b) sufficient information to demonstrate that the applicant is in compliance with securities legislation or that it is in compliance with its home jurisdiction regulatory regime, if it is an applicant whose head office or principal place of business is located outside of Québec; and

(c) any additional relevant information sufficient to demonstrate that it is in the public interest for the Authority to recognize or exempt the applicant under the Act.

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

(a) certify that it will provide the Authority with access to its books and records and will submit to onsite inspection and examination by the Authority;

(b) certify that it will provide the Authority with an opinion of legal counsel that,

(i) the applicant has the power and authority to provide the Authority with prompt access to its books and records; and

(ii) the applicant has the power and authority to submit to onsite inspection and examination by the 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 outside of Québec must file a completed Form 24-503F1 Submission to Jurisdiction and Appointment of Agent for Service of Process.

(4) An applicant must inform the Authority in writing of any material change to the information provided in its application package, 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.

Significant changes and other changes in information

2.2. (1) In this section,

“notice and approval protocol” means a protocol or procedure, forming part of the terms and conditions of a clearing house’s, a central securities depository’s or a settlement system’s recognition by the Authority, that governs, among other things, providing notice to the Authority of a significant change;

“significant change” includes, in relation to a recognized clearing house, central securities depository or settlement system,

(a) any change to its constituting documents;

(b) any change to its by-laws;

(c) any change to its corporate governance or corporate structure, including any change to its ownership whether directly or indirectly;

(d) any material change to an agreement among the clearing house, the central securities depository or the settlement system and participants in connection with its operations and services, including those agreements to which it is a party and those agreements among participants to which it is not a party, but which are referred to in its rules or procedures and are made available by participants to the clearing house, the central securities depository or the settlement system;

(e) except as provided under section 22 of the Derivatives Act (chapter I-14.01), any material change to the clearing house’s, the central securities depository’s or the settlement system’s rules, operating procedures, user guides, manuals, or other documentation governing or establishing the rights, obligations and relationships among the clearing house, the central securities depository or the settlement system and participants in connection with its operations and services;

(f) any material change to the design, operation or functionality of any of the clearing house’s, central securities depository’s or the settlement system’s operations and services;

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

(h) either directly or indirectly through an affiliate, commencing to engage in a new type of business activity or ceasing to engage in a business activity in which it is then engaged; and

(i) any other matter identified as a significant change in the notice and approval protocol.

(2) Except as otherwise provided in the notice and approval protocol or under section 22 of the Derivatives Act, a recognized clearing house, central securities depository or settlement system must not implement a significant change without the prior written approval of the Authority in accordance with the procedures set out in the notice and approval protocol.

(3) If a proposed significant change would affect the information set out in its CPSS-IOSCO FMI Disclosure Framework Document that is filed with the Authority, a recognized clearing house, central securities depository or settlement system must complete and file with the Authority an appropriate amendment to such document within the period and in accordance with the procedures set out in the notice and approval protocol.

(4) Except as otherwise provided in the notice and approval protocol, where a recognized clearing house, central securities depository or settlement system proposes to modify a fee or introduce a new fee for any of its clearing, settlement or depository services, it must inform the Authority at least thirty business days before implementing the fee.

(5) Unless the exemption decision provides otherwise, an exempt clearing house, central securities depository or settlement system must inform the Authority in writing of any material change to the information provided in its CPSS-IOSCO FMI Disclosure Framework Document that is filed with the Authority, or if any of the information becomes materially inaccurate for any reason, as soon as the change occurs or the exempt clearing house, central securities depository or settlement system becomes aware of any inaccuracy.

Ceasing to carry on activities

2.3. (1) A recognized clearing house, central securities depository or settlement system or exempt clearing house, central securities depository or settlement system that intends to cease carrying on activities must file a report on Form 24-503F2 Cessation of Activities Report with the Authority,

(a) at least 180 days before ceasing to carry on activities if a significant reason for ceasing to carry on activities relates to its 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 activities for any other reason.

(2) A recognized clearing house, central securities depository or settlement system or exempt clearing house, central securities depository or settlement system that involuntarily ceases to carry on activities must file a report on Form 24-503F2 Cessation of Activities Report with the Authority as soon as practicable after it ceases to carry on that activity.

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 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 one of the following

(i) Canadian GAAP applicable to a publicly accountable enterprise,

(ii) IFRS, or

(iii) U.S. GAAP, if the person is incorporated or organized under the laws of the United States of America,

(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

(i) Canadian GAAS,

(ii) International Standards on Auditing, or

(iii) U.S. AICPA GAAS or U.S. PCAOB GAAS if the person is incorporated or organized under the laws of the United States of America.

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

(a) expresses an unmodified opinion, if the financial statements are audited in accordance with Canadian GAAS or International Standards on Auditing,

(b) expresses an unqualified opinion if the financial statements are audited in accordance with U.S. AICPA GAAS or U.S. PCAOB GAAS,

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

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

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

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

(g) 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 house, central securities depository or settlement system or exempt clearing house, central securities depository or settlement system must file annual audited financial statements that comply with the requirements in subsections 2.4(2) and (3) with the Authority no later than the 90th day after the end of its financial year.

(2) A recognized clearing house, central securities depository or settlement system or exempt clearing house, central securities depository or settlement system must file interim financial statements that comply with the requirements in paragraphs 2.4(2)(a) and (2)(b) with the Authority no later than the 60th day after the end of each interim period.

Legal entity identifiers

2.6. (1) For the purposes of any recordkeeping and reporting requirements required under securities legislation, a recognized clearing house, central securities depository or settlement system or an exempt clearing house, central securities depository or settlement system must identify itself by means of a single legal entity identifier.

(2) Each of the following rules applies to legal entity identifiers:

(a) a legal entity identifier must be a unique identification code assigned to a clearing house, a central securities depository or a settlement system in accordance with the standards set by the Global Legal Entity Identifier System, and

(b) a clearing house, a central securities depository or a settlement system must comply with all applicable requirements imposed by the Global Legal Entity Identifier System.

(3) Despite subsection (2), if the Global Legal Entity Identifier System is unavailable to a clearing house, a central securities depository or a settlement system all of the following rules apply:

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

(b) each must use the substitute legal entity identifier until a legal entity identifier is assigned to it in accordance with the standards set by the Global Legal Entity Identifier System as required under paragraph (2)(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 (2)(a), the clearing house, the central securities depository or the settlement system must ensure that it is identified only by the assigned identifier.

(4) In this section,

(a) “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

(b) “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.

PART 3 ON-GOING REQUIREMENTS APPLICABLE TO RECOGNIZED CLEARING HOUSES, CENTRAL SECURITIES DEPOSITORIES AND SETTLEMENT SYSTEMS

Legal framework

General principle

3.1. (1) A recognized clearing house, central securities depository or settlement system must establish, implement, maintain and enforce written policies and procedures reasonably designed to ensure a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities.

Comprehensive and enforceable rules

(2) The rules, procedures and related contracts of a recognized clearing house, central securities depository or settlement system must:

- (a) be clear, understandable, and consistent with securities legislation;
- (b) provide sufficient information to enable participants and, where relevant, participants' customers to have an accurate understanding of the rights and obligations of the participants and their customers;
- (c) be reasonably designed to govern all aspects of the services offered by the clearing house, the central securities depository or the settlement system;
- (d) be enforceable in Québec; and
- (e) provide a reasonable degree of certainty that actions taken by the clearing house, the central securities depository or the settlement system under its rules and procedures will not be voided, reversed, or subject to stays.

Articulating legal basis

(3) A recognized clearing house, central securities depository or settlement system must be able to articulate the legal basis for its activities to relevant authorities, participants, and, where relevant, participants' customers, in a clear and understandable way.

Conflict-of-laws issues

(4) Without limiting subsection (1), if a recognized clearing house, central securities depository or settlement system conducts activities in multiple jurisdictions, the policies and procedures referred to in subsection (1) must be reasonably designed to identify and mitigate the risks arising from any potential conflicts of laws across jurisdictions.

Governance

General principle

3.2. (1) A recognized clearing house, central securities depository or settlement system must establish, implement and maintain written governance arrangements that are clear and transparent, promote the safety and efficiency of the clearing house, central securities depository or settlement system, support the stability of the broader financial system and other relevant public interest considerations, and properly balance the objectives of relevant stakeholders.

Board of directors and documented governance arrangements

(2) A recognized clearing house, central securities depository or settlement system must have

- (a) a board of directors, and
- (b) documented governance arrangements that,
 - (i) provide clear and direct lines of responsibility and accountability;
 - (ii) are publicly disclosed on its Website;

(iii) clearly specify the roles and responsibilities of the board of directors; and

(iv) ensure that the risk-management and internal control functions have sufficient authority, independence, resources, and access to the board of directors.

(3) The board of directors and management of the recognized clearing house, central securities depository or settlement system must have clearly documented governance procedures for their functioning, including procedures to:

(a) ensure performance accountability for board members and senior management, such as regular reviews of the board of director's overall performance and the performance of its individual board members;

(b) identify, address and manage any conflicts of interest issues that may arise; and

(c) manage possible risk spill over where the clearing house, the central securities depository or the settlement system provides services with a different risk profile than its depository, clearing, or settlement services.

Board member skills and composition

(4) The board of directors of a recognized clearing house, central securities depository or settlement system must include,

(a) individuals who have an appropriate level of skill, experience, knowledge and incentives to effectively and efficiently fulfill the board's multiple roles and responsibilities with respect to the clearing house's, the central securities depository's or the settlement system's operations, and

(b) appropriate representation by individuals who are independent of the clearing house, the central securities depository or the settlement system.

Management roles, responsibilities and skills

(5) Management of a recognized clearing house, central securities depository or settlement system must,

(a) have clearly specified and documented roles and responsibilities that include:

(i) active involvement in the clearing house's, central securities depository's or settlement system's risk control process including responsibility for ensuring that significant resources are devoted to its risk-management framework; and

(ii) responsibility for ensuring that the clearing house's, the central securities depository's or settlement system's

(A) internal controls and related procedures are appropriately designed and executed, and;

(B) operations are consistent with the objectives, strategy and risk tolerance of the clearing house, the central securities depository or the settlement system as determined by the board of directors;

(b) have the appropriate experience, mix of skills, and the integrity necessary to discharge its responsibilities for the operation and risk management of the clearing house, the central securities depository or the settlement system; and

(c) appoint 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 house, the central securities depository or the settlement system.

Role of chief risk officer

(6) A recognized clearing house's, central securities depository's or settlement system's chief risk officer must,

(a) have full responsibility and authority to maintain, implement and enforce the risk management framework established by the clearing house, the central securities depository or the settlement system as required pursuant to this section and section 3.3;

(b) make recommendations to the clearing house's, central securities depository's or settlement system's board of directors regarding the clearing house's, central securities depository's or settlement system's risk management framework;

(c) monitor the effectiveness of the clearing house's, central securities depository's or settlement system's risk management framework on an ongoing basis; and

(d) report to the clearing house's, central securities depository's or settlement system's board of directors on a timely basis upon becoming aware of any significant deficiency with the risk management framework.

Role of chief compliance officer

(7) A recognized clearing house's, central securities depository's or settlement system's 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 house, the central securities depository or settlement system 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 house, the central securities depository or settlement system as soon as practicable upon becoming aware of any circumstance indicating that the clearing house, the central securities depository or settlement system 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 house, the central securities depository or settlement system to carry on activities in compliance with securities legislation;

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

(e) report to the clearing house's, central securities depository's or settlement system'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 Authority.

Risk management governance

(8) The board of directors of a recognized clearing house, central securities depository or settlement system must establish a clear, documented risk-management framework that,

- (a) includes its risk-tolerance policy,
- (b) assigns responsibilities and accountability for risk decisions, and
- (c) addresses decision making in crises and emergencies.

(9) Without limiting subsection (8), the board of directors of a recognized clearing house, central securities depository or settlement system must have in place a validation process of models used to manage risk that is independent of the development, implementation, and operation of the models and their methodologies.

(10) The validation process described in subsection (9) must be subjected to periodic independent review of its adequacy and effectiveness.

(11) The board of directors of a recognized clearing house, central securities depository or settlement system must ensure that the clearing house's, central securities depository's or settlement system's design, rules, overall strategy, and major decisions reflect appropriately the legitimate interests of its direct and indirect participants and other relevant stakeholders.

Board and advisory committees

(12) The board of directors of a recognized clearing house, central securities depository or settlement system must establish and maintain one or more committees on risk management, finance and audit, 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 house's, central securities depository's or settlement system's risk management policies and procedures, the adequacy of the implementation of appropriate procedures to mitigate and manage such risks, and the clearing house's, central securities depository's or settlement system'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 house's, central securities depository's or settlement system's risks;

(c) monitoring the financial performance of the clearing house, the central securities depository or settlement system and providing financial management oversight and direction to its activities and affairs; and

(d) a requirement that these committees,

(i) where the committee is a board committee, be chaired by a sufficiently knowledgeable individual who is an independent director, and

(ii) have an appropriate representation by individuals who are independent of the clearing house, the central securities depository or the settlement system.

Transparency of major decisions

(13) A recognized clearing house, central securities depository or settlement system must

- (a) clearly disclose to relevant stakeholders its major decisions; and
- (b) disclose on its Website a major decision that has a broad market impact.

Framework for comprehensive management of risks

General principle

3.3. (1) A recognized clearing house, central securities depository or settlement system must have a clear and documented risk-management framework for comprehensively managing legal, credit, liquidity, operational and other risks.

Policies, procedures and systems, etc.

(2) A recognized clearing house's, central securities depository's or settlement system's risk management framework must,

- (a) include 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;
- (b) be subject to periodic review; and
- (c) encourage its participants and, where relevant, their customers to manage and contain the risks they pose to the clearing house, the central securities depository or the settlement system.

(3) Without limiting subsections (1) and (2), the recognized clearing house, central securities depository or settlement system must,

- (a) regularly review the material risks it bears from and poses to other entities, such as other clearing houses, central securities depositories, settlement systems, payment systems, trade repositories, settlement banks, liquidity providers, exchanges and other trading platforms, and service providers, as a result of interdependencies and develop appropriate risk-management tools to address these risks;
- (b) identify scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern and assess the effectiveness of a full range of options for recovery or orderly wind-down;
- (c) prepare appropriate plans for its recovery or orderly wind-down based on its assessment of scenarios that may potentially prevent it from being able to provide its critical operations and services as a going concern;
- (d) where applicable, provide relevant authorities with the information needed for purposes of resolution planning;
- (e) develop, implement and maintain information systems that enable it to,

(i) monitor and measure its aggregate risk exposures, including overall credit and liquidity exposures and limits, and the relationship between these exposures and limits;

(ii) manage individual risk exposures and the interdependencies between them; and

(iii) assess the impact of various economic and financial shocks that could affect it; and

(f) have comprehensive internal control processes to assist the board of directors and senior management to monitor and assess the adequacy and effectiveness of the clearing house's, central securities depository's or settlement system's risk-management policies, procedures, systems, and controls.

Credit risk

General principles

3.4. (1) A recognized clearing house that acts as, or performs the services of, a central counterparty or settlement system or a recognized settlement system must effectively measure, monitor, and manage its credit exposures to participants and those arising from its clearing and settlement processes.

(2) A recognized clearing house that performs the services of a settlement system or a recognized settlement system must cover 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.

(3) A recognized clearing house that acts as a central counterparty must cover its current and potential future exposures to each participant fully with a high degree of confidence using margin and other prefunded financial resources.

(4) A recognized clearing house that acts as a central counterparty must maintain, in addition to the financial resources described in subsection (3), 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 house in extreme but plausible market conditions.

(5) Notwithstanding subsection (4), if the Authority determines that a recognized clearing house that acts as a central counterparty is involved in activities with a more-complex risk profile or is systemically important in multiple jurisdictions, the clearing house must maintain, in addition to the financial resources described in subsection (3), financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the 2 participants and their affiliates that would potentially cause the largest aggregate credit exposure to the clearing house in extreme but plausible market conditions.

Identifying, measuring and monitoring credit exposures

(6) Without limiting subsection (1), a recognized clearing house or settlement system must,

(a) establish a robust framework to manage its credit exposures, whether current exposures, potential future exposures, or both, to its participants and the credit risks arising from its clearing and settlement processes, as applicable; and

(b) identify sources of credit risk, routinely measure and monitor its credit exposures, and use appropriate risk-management tools to control these risks.

Documenting governance arrangements

(7) A recognized clearing house that acts as a central counterparty or a recognized settlement system must document its supporting rationale for, and have appropriate governance arrangements relating to, the amount of total financial resources it maintains.

Stress testing

(8) A recognized clearing house that acts as a central counterparty must:

- (a) at least on a daily basis, conduct rigorous stress testing to,
 - (i) determine the sufficiency of its total financial resources available in the event of one or more participant defaults in extreme but plausible market conditions,
 - (ii) report the results of the stress tests to its management, and
 - (iii) use the results of the stress tests to evaluate the adequacy of, and adjust as necessary, its total financial resources;
- (b) regularly, at least on a monthly basis, perform comprehensive and thorough analyses of stress testing scenarios, models, and underlying parameters and assumptions used to ensure they are appropriate for determining the clearing house's required level of default protection in light of current and evolving market conditions; and
- (c) regularly, at least on a yearly basis, perform a full validation of its risk management model.

(9) Notwithstanding paragraph (8)(b), a recognized clearing house that acts as a central counterparty must perform the analysis of stress testing described in that paragraph more frequently when,

- (a) the products cleared or markets served display high volatility or become less liquid, or
- (b) the size or concentration of positions held by the clearing house's participants increases significantly.

(10) In conducting stress testing, the recognized clearing house that acts as a central counterparty must consider the effect of a wide range of relevant stress scenarios in terms of both defaulters' positions and possible price changes in liquidation periods, including the following scenarios:

- (a) relevant peak historic price volatilities;
- (b) shifts in other market factors such as price determinants and yield curves;
- (c) multiple defaults over various time horizons;
- (d) simultaneous pressures in funding and asset markets; and
- (e) a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.

Uncovered credit losses

(11) A recognized clearing house or settlement system must have explicit rules and procedures to address any credit losses resulting from one or more defaults among its participants.

(12) The recognized clearing house's or settlement system's rules and procedures required by subsection (11) must also address,

(a) how potentially uncovered credit losses would be allocated, including the repayment of any funds the clearing house or the settlement system may borrow from liquidity providers; and

(b) the process for replenishing any financial resources employed by the clearing house or the settlement system during a stress event.

Collateral

General principle

3.5. (1) A recognized clearing house that acts as, or performs the services of, a central counterparty or settlement system or a recognized settlement system that requires collateral to manage its or its participants' credit exposure must,

(a) accept collateral with low credit, liquidity, and market risks, and

(b) set and enforce appropriately conservative haircuts and concentration limits on collateral that it collects.

Valuation practices and haircuts

(2) A recognized clearing house or settlement system must establish, implement and maintain prudent collateral acceptance and valuation practices and develop haircuts that are regularly tested and take into account stressed market conditions for the purpose of reasonably assuring itself of the collateral's value in the event of liquidation.

(3) Without limiting subsections (1) and (2), the recognized clearing house or settlement system must:

(a) not allow a participant to post its own debt or equity securities, or debt or equity securities issued by an affiliate of the participant, as collateral;

(b) mitigate against specific wrong-way risk by limiting the acceptance of collateral that would likely lose value in the event that the participant providing the collateral defaults;

(c) at a minimum, mark the collateral it receives to market daily; and

(d) independently validate its haircut procedures at least annually.

Limiting procyclicality

(4) For the purposes of paragraph (1)(b), a recognized clearing house or settlement system must establish stable and conservative haircuts that are calibrated to include periods of stressed market conditions, to the extent practicable and prudent, in order to reduce the need for procyclical adjustments.

Concentrations limits or charges

(5) A recognized clearing house or settlement system must establish, implement and maintain appropriate concentration limits or charges across all acceptable asset classes

of collateral to avoid concentrated holdings of certain assets which would significantly impair its ability to liquidate such assets quickly without adverse price effects.

(6) The recognized clearing house or settlement system must periodically review the concentration limits or charges described in subsection (5) to determine their adequacy.

Cross-border collateral

(7) A recognized clearing house or settlement system that accepts cross-border collateral must mitigate the risks associated with its use and ensure that the collateral can be used in a timely manner.

Collateral management systems

(8) A recognized clearing house or settlement system must use a collateral management system that is well-designed and operationally flexible.

Margin

General principle

3.6. (1) A recognized clearing house that acts as a central counterparty must cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.

Margin system

(2) Without limiting subsection (1), the margin system should be designed to establish margin levels commensurate with risks and particular attributes of each product, portfolio, and market that the clearing house serves.

Price information

(3) A recognized clearing house that acts as a central counterparty must have,

- (a) a reliable source of timely price data for its margin system; and
- (b) procedures and valuation models for addressing circumstances in which pricing data are not readily available or reliable.

Initial margin methodology

(4) A recognized clearing house that acts as a central counterparty must adopt 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.

(5) For the purposes of subsection (4),

- (a) initial margin must meet an established single-tailed confidence level of at least 99% with respect to the estimated distribution of future exposure; and
- (b) the initial margin model must,
 - (i) use a conservative estimate of the time horizons for the effective hedging or close out of the particular types of products cleared by the clearing house including in stressed market conditions;

(ii) have an appropriate method for measuring credit exposure that accounts for relevant product risk factors and portfolio effects across products; and

(iii) to the extent practicable and prudent, limit the need for destabilising, procyclical changes.

(6) Where the recognized clearing house calculates initial margin,

(a) at the portfolio level, the requirement of paragraph (5)(a) must apply to each portfolio's distribution of future exposure; or

(b) at more-granular levels, such as at the subportfolio level or by product, the requirement of paragraph (5)(a) must be met for the corresponding distributions of future exposure.

Variation margin

(7) A recognized clearing house that acts as a central counterparty must,

(a) mark participant positions to market and collect variation margin at least daily to limit the build-up of current exposures; and

(b) have the authority and operational capacity to make intraday margin calls and payments, both scheduled and unscheduled, to participants.

Portfolio margining and cross-margining

(8) Subject to the provisions of section 3.14, in calculating margin requirements, a recognized clearing house that acts as a central counterparty may allow offsets or reductions in required margin across products that it clears or between products that it and another central counterparty clear, provided that the risk of one product is significantly and reliably correlated with the risk of the other product.

(9) Where the recognized clearing house is authorized to offer cross-margining with one or more other central counterparties, it and the other central counterparties must have appropriate safeguards and harmonised overall risk-management systems.

Testing model coverage and validation of margin methodology

(10) A recognized clearing house that acts as a central counterparty must,

(a) analyse and monitor its model performance and overall margin coverage by conducting rigorous,

(i) daily backtesting, and

(ii) at least monthly, and more frequently where appropriate, sensitivity analysis; and

(b) regularly conduct an assessment of the theoretical and empirical properties of its margin model for all products it clears; and

(c) regularly review and validate its margin system.

(11) In conducting sensitivity analysis of the model's coverage under subparagraph (10)(a)(ii), the clearing house must take 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 of products it clears.

Timeliness of margin payments

(12) A recognized clearing house that acts as a central counterparty must establish and rigorously enforce timelines for margin collections and payments and set appropriate consequences for failure to pay on time.

Liquidity risk

General principle

3.7. (1) A recognized clearing house that acts as, or performs the services of, a central counterparty or settlement system or a recognized settlement system must effectively measure, monitor, and manage its liquidity risk.

(2) The recognized clearing house must maintain 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 house in extreme but plausible market conditions.

Sources of, and managing, liquidity risk

(3) A recognized clearing house or settlement system must have a robust framework to manage its liquidity risks from its participants, settlement banks, *nostro* agents, custodian banks, liquidity providers, and other entities.

Measuring and monitoring liquidity risk

(4) A recognized clearing house or settlement system must have 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.

Maintaining sufficient liquid resources

(5) A recognized clearing house that performs the services of a settlement system or a recognized settlement system, including one that employs a deferred net settlement mechanism, must maintain 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.

(6) A recognized clearing house that acts as a central counterparty must maintain 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 house in extreme but plausible market conditions.

(7) Notwithstanding subsection (6), if the Authority determines that a recognized clearing house that acts as a central counterparty is involved in activities with a more-complex risk profile or is systemically important in multiple jurisdictions, the clearing house must consider 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 2 participants and their affiliates that would generate the largest aggregate payment obligation to the clearing house in extreme but plausible market conditions.

Qualifying liquid resources

(8) Only the following liquidity resources of a recognized clearing house or settlement system are eligible for the purpose of meeting the requirements to maintain sufficient liquid resources under subsections (5), (6) and (7):

(a) cash in the currency of the requisite obligations, held either at the central bank of issue or at a commercial bank that meets the clearing house's strict criteria under subsection 3.9(4);

(b) committed lines of credit;

(c) committed foreign exchange swaps;

(d) committed repurchase agreements; or

(e) highly marketable collateral held in custody and investments that are readily available and convertible into cash pursuant to prearranged and highly reliable funding arrangements, even in extreme but plausible market conditions.

(9) For the purposes of subsection (8), if the clearing house or settlement system has access to routine credit at the central bank of issue, the clearing house or the settlement system 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.

Other liquid resources

(10) If a recognized clearing house or settlement system maintains financial resources in addition to those eligible under subsections (8) and (9) to satisfy the sufficient liquid resources requirements, then those resources must be in the form of assets that are likely to be saleable with proceeds available promptly or acceptable as collateral for lines of credit, swaps, or repurchase agreements on an *ad hoc* basis following a default, even if this saleability or acceptability as collateral cannot be reliably prearranged or guaranteed in extreme market conditions.

(11) The recognized clearing house or settlement system should consider maintaining collateral that is typically accepted by a central bank of issue for any currency in which it may have settlement obligations, but must not assume the availability of emergency central bank credit as a part of its liquidity plan.

Due diligence of liquidity providers

(12) A recognized clearing house or settlement system must undertake rigorous due diligence to assure itself that each provider of its eligible liquid resources under subsections (8) and (9), whether a participant of the clearing house or the settlement system 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.

(13) For the purposes of subsection (12), 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.

(14) The recognized clearing house or settlement system must regularly test its procedures for accessing its liquid resources at a liquidity provider.

Central bank services

(15) A recognized clearing house or settlement system with access to central bank accounts, payment services, or securities services must use these services, where practical, to enhance its management of liquidity risk.

Stress testing of liquidity needs and resources

(16) A recognized clearing house or settlement system must,

(a) determine the amount and regularly test the sufficiency of its liquid resources through rigorous stress testing, and

(b) have clear procedures to

(i) report the results of its stress tests to appropriate decision makers at the clearing house or settlement system, and

(ii) use these results to evaluate the adequacy of and adjust its liquidity risk-management framework.

(17) In conducting stress testing, the recognized clearing house or settlement system must consider a wide range of relevant scenarios, including:

(a) relevant peak historic price volatilities,

(b) shifts in other market factors such as price determinants and yield curves,

(c) multiple defaults over various time horizons,

(d) simultaneous pressures in funding and asset markets, and

(e) a spectrum of forward-looking stress scenarios in a variety of extreme but plausible market conditions.

(18) For the purposes of subsection (17), scenarios must also take into account the design and operation of the clearing house or settlement system, include all entities that may pose material liquidity risks to the clearing house or settlement system, such as settlement banks, *nostro* agents, custodian banks, liquidity providers, and linked clearing houses, settlement systems, trade repositories and payment systems, and where appropriate, cover a multiday period.

(19) A recognized clearing house or settlement system must at all times document its supporting rationale for, and have appropriate governance arrangements relating to, the amount and form of total liquid resources it maintains.

Contingency planning for uncovered liquidity shortfalls

(20) A recognized clearing house or settlement system must establish explicit rules and procedures that,

(a) enable it 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;

(b) address unforeseen and potentially uncovered liquidity shortfalls which aim to avoid unwinding, revoking, or delaying the same-day settlement of payment obligations; and

(c) indicate the clearing house's or settlement system's process to replenish any liquidity resources it may employ during a stress event.

Settlement finality

General principle

3.8. (1) A recognized clearing house that acts as, or performs the services of, a central counterparty or settlement system or a recognized settlement system must provide clear and certain final settlement, at a minimum by the end of the value date.

(2) Where necessary, the clearing house or settlement system must provide final settlement intraday or in real time.

Final settlement

(3) Without limiting subsection (1), the clearing house's or the settlement system's rules and procedures must clearly define the point,

(a) at which settlement is final; and,

(b) after which unsettled payments, transfer instructions, or other obligations may not be revoked by a participant.

Money settlements

General principle

3.9. (1) A recognized clearing house that acts as, or performs the services of, a central counterparty or settlement system or a recognized settlement system must conduct its money settlements in central bank money, where practical and available.

(2) Where central bank money is not used, the clearing house or settlement system must,

(a) conduct its money settlements using a settlement asset with little or no credit or liquidity risk, and

(b) minimize and strictly control the credit and liquidity risk arising from the use of commercial bank money.

Commercial bank money

(3) Without limiting subsection (2), where the clearing house or settlement system settles in commercial bank money, it must,

(a) monitor, manage, and limit its credit and liquidity risks arising from the commercial settlement banks; and

(b) monitor and manage the concentration of credit and liquidity exposures to the commercial settlement banks.

(4) For the purposes of paragraph (3)(a), the clearing house or settlement system must establish and monitor adherence to strict criteria for its commercial settlement banks that take account of, among other things, their,

(a) regulation and supervision,

(b) creditworthiness,

(c) capitalisation,

- (d) access to liquidity, and
- (e) operational reliability.

Settlement on books of clearing house or settlement system

(5) Where the clearing house or settlement system conducts money settlements on its own books, it must minimize and strictly control its credit and liquidity risks.

Finality of funds transfers between settlement accounts

(6) The clearing house's or settlement system's legal agreements with any commercial settlement banks must state clearly,

- (a) when transfers on the books of individual settlement banks are expected to occur,
- (b) that transfers are to be final when effected, and
- (c) that funds received are to be transferable as soon as possible and, at a minimum, by the end of the day.

Physical deliveries

General principle

3.10. (1) A recognized clearing house, central securities depository or settlement system must,

- (a) clearly state in its rules and procedures its obligations with respect to the delivery of physical instruments or commodities, and
- (b) identify, monitor and manage the risks and costs associated with the storage and delivery of physical instruments and commodities.

Central securities depositories

General principle

3.11. (1) A recognized clearing house that acts as a central securities depository or a recognized central securities depository must,

- (a) have appropriate rules, procedures and controls, including robust accounting practices, to help ensure the integrity of securities issues and minimise and manage the risks associated with the safekeeping and transfer of securities; and
- (b) maintain securities in an immobilized or dematerialised form for their transfer by book entry.

Safeguarding integrity of securities issues

(2) Without limiting subsection (1), a recognized central securities depository or, where it acts as a central securities depository, a recognized clearing house, must,

- (a) safeguard the rights of securities issuers and holders,
- (b) prevent the unauthorised creation or deletion of securities,
- (c) conduct periodic and at least daily reconciliation of securities issues it maintains, and

- (d) prohibit overdrafts and debit balances in securities accounts.

Protection of assets

(3) A recognized clearing house that acts as a central securities depository or a recognized central securities depository must protect assets against custody risk through appropriate rules and procedures consistent with its legal framework.

- (4) The clearing house or central securities depository must also,

- (a) employ a robust system that ensures segregation between its own assets and the securities of its participants and segregation among the securities of participants, and

- (b) where supported by the legal framework, support operationally the segregation of securities belonging to a participant's customers on the participant's books and facilitate the transfer of customer holdings.

Other activities

(5) Where a recognized central securities depository, or a clearing house that acts as a central securities depository, provides services other than central safekeeping and administration of securities, it must identify, measure, monitor, and manage the risks associated with those activities.

Exchange-of-value settlement systems

General principle

3.12. (1) Where a recognized settlement system, or a recognized clearing house that acts as, or performs the services of, a central counterparty or settlement system, settles transactions that involve the settlement of 2 linked obligations, it must eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other, regardless of whether the clearing house or the settlement system settles on a gross or net basis and when finality occurs.

Participant default rules and procedures

General principle

3.13. (1) A recognized clearing house, central securities depository or settlement system must have effective and clearly defined rules and procedures to manage a participant default.

(2) The clearing house's, central securities depository's or settlement system's rules and procedures under subsection (1) must be designed to ensure that the clearing house, the central securities depository or the settlement system can take timely action to contain losses and liquidity pressures and continue to meet its obligations.

Use and sequencing of financial resources

(3) The rules and procedures of a recognized clearing house, central securities depository or settlement system must specify the order in which different types of financial resources that the clearing house, the central securities depository or the settlement system maintains for covering losses and containing liquidity pressures arising from a participant default, including liquidity facilities, will be used to contain such losses and liquidity pressures.

Default rules and procedures

(4) Without limiting subsections (1) to (3), the recognized clearing house's, central securities depository's or settlement system's default rules and procedures must clearly describe:

- (a) the circumstances that constitute a participant default,
- (b) whether a declaration of default by the clearing house, the central securities depository or the settlement system is automatic or discretionary, and if discretionary, which person or group shall exercise that discretion,
- (c) the actions that the clearing house, the central securities depository or the settlement system can take when a default is declared, and the extent to which such actions are automatic or discretionary,
- (d) potential changes to its normal settlement practices, should these changes be necessary in extreme circumstances,
- (e) the management of transactions at different stages of processing,
- (f) the expected treatment of proprietary and customer transactions and accounts,
- (g) the probable sequencing of its actions in response to a participant default,
- (h) the roles, obligations, and responsibilities of the various parties, including non-defaulting participants, and
- (i) the existence of other mechanisms that may be activated to contain the impact of a default.

(5) A recognized clearing house, central securities depository or settlement system must publicly disclose on its Website key aspects of its default rules and procedures.

Testing of default procedures

(6) A recognized clearing house, central securities depository or settlement system must involve its participants and other stakeholders in the testing and review of its default rules and procedures, including any close-out procedures.

(7) The testing and review described in subsection (6) must be conducted at least annually or following material changes to the clearing house's, central securities depository's or settlement system's default rules and procedures to ensure that they are practical and effective.

Use of own capital

(8) A recognized clearing house that acts 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.

Segregation and portability

General principle

3.14. (1) A recognized clearing house that acts as a central counterparty must have rules and procedures that provide for the segregation and portability of positions of a participant's customers and the collateral provided to it with respect to those positions.

(2) The segregation and portability arrangements provided for in the clearing house's rules and procedures under subsection (1) must, at a minimum, effectively protect a participant's customers' positions and related collateral from the default or insolvency of that participant.

Fellow customer default

(3) To the extent that, in addition to the protection described in subsection (2), the clearing house offers to protect a participant's customers' positions and related collateral from the concurrent default or insolvency of the participant and a fellow customer, the clearing house must take steps to ensure that such protection is effective.

Customer account structures and transfer of positions and collateral

(4) To ensure effective segregation and portability arrangements in accordance with this section, the clearing house must:

(a) employ an account structure that,

(i) allows the clearing house to readily identify positions of a participant's customers and to segregate related collateral; and

(ii) is comprised of individual customer accounts or omnibus customer accounts; and

(b) structure 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.

Disclosure

(5) A recognized clearing house that acts as a central counterparty must publicly disclose on its Website,

(a) its rules, policies, and procedures relating to the segregation and portability of a participant's customers' positions and related collateral, including whether customer collateral is protected on an individual or omnibus basis; and

(b) 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.

General business risk

General principle

3.15. (1) A recognized clearing house, central securities depository or settlement system must,

(a) have robust management and control systems to identify, monitor, and manage its general business risks, including losses from poor execution of business strategy, negative cash flows, or unexpected and excessively large operating expenses, and

(b) hold sufficient liquid net assets funded by equity such as common stock, disclosed reserves, or other retained earnings to cover potential general business

losses so that it can continue operations and services as a going concern if those losses materialise.

(2) The clearing house's, central securities depository's or settlement system's liquid net assets for the purposes of paragraph (1)(b) must at all times be 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.

Determining sufficiency of liquid net assets

(3) A recognized clearing house, central securities depository or settlement system must,

(a) maintain a viable recovery or orderly wind-down plan approved by the board of directors, and

(b) hold sufficient liquid net assets funded by equity to implement the plan that are:

(i) at a minimum, equal to at least 6 months of its current operating expenses, and

(ii) in addition to the clearing house's or settlement system's resources available to cover participant defaults and other risks required to be covered pursuant to sections 3.4 to 3.7.

(4) For the purposes of paragraph (3)(b), the assets held to cover the clearing house's, the central securities depository's or the settlement system's general business risk must be of high quality and sufficiently liquid in order to allow it to meet its current and projected operating expenses under a range of scenarios, including in adverse market conditions.

(5) The recognized clearing house, central securities depository or settlement system must,

(a) maintain a viable plan for raising additional equity should its equity fall close to or below the amount required under paragraph (3)(b); and

(b) have the plan described in paragraph (a) approved by the board of directors and updated regularly.

Custody and investment risks

General principle

3.16. (1) A recognized clearing house, central securities depository or settlement system must safeguard its own and its participants' assets and minimize the risk of loss on and delay in access to these assets.

(2) The clearing house's, central securities depository's or settlement system's investments must be in instruments with minimal credit, market, and liquidity risks.

Use of custodians

(3) Without limiting subsection (1), the recognized clearing house, central securities depository or settlement system must:

(a) hold its own and its participants' assets at supervised or regulated banks or custodians that have robust accounting practices, safekeeping procedures, and internal controls that fully protect such assets;

(b) when required, have prompt access to its assets and the assets provided by participants; and

(c) evaluate and understand its exposures to its banks and custodians, taking into account the full scope of its relationships with each.

Investment strategy

(4) Without limiting subsection (2), a recognized clearing house's, central securities depository's or settlement system's investment strategy must:

(a) be consistent with its overall risk-management strategy;

(b) be publicly disclosed on its Website;

(c) limit its investments to instruments that are secured by, or claims on, high-quality obligors; and

(d) allow the clearing house, the central securities depository or the settlement system to liquidate its investments quickly with little, if any, adverse price effect.

Operational risks

General principles

3.17. (1) A recognized clearing house, central securities depository or settlement system must identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls.

(2) The clearing house's, settlement system's or central securities depository's systems must be designed to ensure a high degree of security and operational reliability and have adequate, scalable capacity.

(3) The clearing house's, central securities depository's or settlement system's business continuity management must aim for timely recovery of operations and fulfillment of the clearing house's, central securities depository's or settlement system's obligations, including in the event of a wide-scale or major disruption.

Identifying sources of operational risk, operational risk management, and operational reliability

(4) Without limiting subsection (1), the clearing house, the central securities depository or the settlement system must ensure the following:

(a) it has a robust operational risk-management framework with appropriate systems, policies, procedures, and controls to identify, monitor, and manage operational risks;

(b) its board of directors clearly defines the roles and responsibilities for addressing operational risk and endorses its operational risk-management framework;

(c) its systems, operational policies, procedures, and controls are reviewed, audited, and tested periodically and after significant changes; and

(d) it has clearly defined operational reliability objectives, and policies in place that are designed to achieve those objectives.

Operational capacity, systems requirements, and incident management

(5) Without limiting subsection (2), a recognized clearing house, central securities depository or settlement system must

(a) ensure that it has scalable capacity adequate to handle increasing stress volumes and to achieve its service-level objectives;

(b) have comprehensive physical and information security policies that address potential vulnerabilities and threats;

(c) develop and maintain,

(i) an adequate system of internal controls over its systems that support its 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

(d) 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,

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

(e) promptly notify the Authority of any material systems failure, malfunction or delay or other incident disruptive to its operations, or any breach of data security, integrity or confidentiality, and must provide to the Authority a post-incident report that includes a root-cause analysis as soon as practicable.

(6) For each of the systems referred to in paragraph 5(c), a recognized clearing house, central securities depository or settlement system must annually engage a qualified party to conduct an independent systems review and prepare a report in accordance with established audit standards to ensure that it is in compliance with paragraphs (5)(c) and (d) and subsection (12).

(7) A recognized clearing house, central securities depository or settlement system must provide the report resulting from the review conducted under subsection (6) to:

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

(b) the Authority within 30 days of providing the report to its board of directors or audit committee.

(8) A recognized clearing house, central securities depository or settlement system must make publicly available, in their final form, all technology requirements regarding interfacing with or accessing the clearing house, central securities depository or settlement system,

(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.

(9) After complying with subsection (8), a recognized clearing house, central securities depository or settlement system must make available testing facilities for interfacing with or accessing the clearing house, central securities depository or settlement system,

(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.

(10) A recognized clearing house, central securities depository or settlement system must not begin operations until it has complied with paragraphs (8)(a) and (9)(a).

(11) Paragraphs (8)(b) and (9)(b) do not apply to a recognized clearing house, central securities depository or settlement system 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) it immediately notifies the Authority of its intention to make the change to its technology requirements, and

(c) it publicly discloses on its Website the changed technology requirements as soon as practicable.

Business continuity plan

(12) Without limiting subsection (3), a recognized clearing house, central securities depository or settlement system must develop and maintain a reasonable business continuity plan, including a disaster recovery plan, that:

(a) addresses events posing a significant risk of disrupting its operations, including events that could cause a wide-scale or major disruption;

(b) incorporates the use of a secondary site;

(c) is designed to

(i) ensure that critical information technology (IT) systems can resume operations within 2 hours following disruptive events; and

(ii) enable it to complete settlement by the end of the day of the disruption, even in extreme circumstances; and

(d) is tested on a reasonably frequent basis and, in any event, at least annually.

(13) A recognized clearing house, central securities depository or settlement system must identify and keep current a record of all potential single points of failure in its operations.

Interdependencies, including outsourcing

(14) A recognized clearing house, central securities depository or settlement system must identify, monitor, and manage the risks that,

(a) key participants, other clearing houses, central securities depositories, settlement systems, trade repositories, payment systems, and service and utility providers may pose to its operations; and

(b) its operations may pose to other clearing houses, central securities depositories, settlement systems, trade repositories, and payment systems.

(15) If a recognized clearing house, central securities depository or settlement system outsources a critical service or system to a service provider, including to an affiliate or associate of the clearing house, the central securities depository or the settlement system, it must:

(a) establish, implement, maintain and enforce written policies and procedures for the selection of 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 house, the central securities depository or the settlement system 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 contract with the service provider to whom a critical service and system is outsourced that is appropriate for the materiality and nature of the outsourced activities and that provides for adequate termination procedures;

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

(e) ensure that the Authority has the same access to all data, information and systems maintained by the service provider on its behalf that the Authority would have absent the outsourcing arrangements;

(f) ensure that all persons conducting audits or independent reviews of the clearing house, the central securities depository or the settlement system under this Regulation have appropriate access to all data, information and systems maintained by the service provider on its behalf 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 providers protect the participants' confidential information and disclose 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 regularly review the performance of the service provider under the outsourcing arrangements.

Access, participation and due process requirements

General principle

3.18. (1) A recognized clearing house, central securities depository or settlement system must have objective, risk-based, and publicly disclosed criteria for participation,

which permit fair and open access to its services, including by direct and, where relevant, indirect participants and other clearing houses, central securities depositories, settlement systems, payment systems and trade repositories.

Basic access standards

(2) A recognized clearing house, central securities depository or settlement system must establish written risk-related participation requirements for granting access to each of its services that are justified in terms of the safety and efficiency of the clearing house, the central securities depository or the settlement system, are tailored to and commensurate with its specific risks, and are publicly disclosed on its Website.

(3) Without limiting subsection (2), a recognized clearing house, central securities depository or settlement system 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 services offered by it; and

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

Due process

(4) For any decision made by a recognized clearing house, central securities depository or settlement system that adversely affects a participant or an applicant that applies to become a participant the clearing house, central securities depository or settlement system must ensure that:

(a) the participant or applicant is given an opportunity to present observations; and

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

(5) Nothing in subsection (4) shall be construed as to limit or prevent the clearing house, the central securities depository or settlement system from taking timely action in accordance with its default rules and procedures under section 3.13 to manage the default of one or more participants or in connection with its recovery or orderly wind-down, whether or not such action adversely affects a participant.

Participant monitoring

(6) A recognized clearing house, central securities depository or settlement system must monitor compliance by its participants with its participation requirements on an ongoing basis and have clearly defined and publicly disclosed procedures for sanctioning non-compliance with its participation requirements, including the suspension and orderly exit of a participant that breaches, or no longer meets, the participation requirements.

Tiered participation arrangements

General principle

3.19. (1) A recognized clearing house, central securities depository or settlement system must,

(a) identify, monitor, and manage the material risks to the clearing house, central securities depository or settlement system arising from any tiered participation arrangements; and

(b) regularly review such risks and take mitigating action when appropriate.

Gathering and assessing information on risks arising from tiered participation arrangements

(2) A recognized clearing house, central securities depository or settlement system must ensure 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 house, central securities depository or settlement system arising from such tiered participation arrangements.

Understanding material dependencies in tiered participation arrangements

(3) Without limiting subsection (1), a recognized clearing house, central securities depository or settlement system must identify material dependencies between direct and indirect participants that may adversely affect the clearing house, central securities depository or settlement system and, in particular, have policies and procedures that enable it to identify indirect participants,

(a) who are responsible for a significant proportion of transactions processed by the clearing house, central securities depository or settlement system; or

(b) whose transaction volumes or values are large relative to the capacity of the direct participants through which they access the clearing house, the central securities depository or the settlement system.

Links with other financial market infrastructures

General principle

3.20. (1) A recognized clearing house, central securities depository or settlement system that establishes a link with one or more clearing houses, central securities depositories, settlement systems or trade repositories must identify, monitor, and manage link-related risks.

Identifying and managing link-related arrangements

(2) Without limiting subsection (1), the clearing house, the central securities depository or settlement system must identify and assess all potential sources of risk arising from a potential link before it enters into the link and, if it enters into the link, must identify, monitor, and manage such risks on an ongoing basis.

(3) A link described in subsection (1) must,

(a) have a well-founded legal basis that supports its design and provides adequate protection to the parties involved in the link, and

(b) be designed to enable the clearing house, the central securities depository or settlement system to comply with this Regulation.

CSD-CSD links

(4) A recognized clearing house that acts as a central securities depository or a recognized central securities depository must meet the following relevant standards applicable to links it has entered into with one or more other central securities depositories:

(a) linked central securities depositories measure, monitor, and manage the credit and liquidity risks arising from each other;

(b) any credit extensions between linked central securities depositories are covered fully with high-quality collateral and are subject to limits;

(c) 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;

(d) 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;

(e) 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.

CCP-CCP links

(5) A recognized clearing house that acts as a central counterparty must meet the following relevant standards applicable to links it has entered into with one or more other central counterparties:

(a) before entering into a link with another central counterparty, a central counterparty identifies and assesses the potential spill-over effects from the default of the linked central counterparty;

(b) after entering into a link with another central counterparty, a central counterparty identifies, assesses, and manages the potential spill-over effects from the default of the linked central counterparty;

(c) if a link has 3 or more central counterparties, each central counterparty identifies, assesses, and manages the risks of the collective link;

(d) 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.

Efficiency and effectiveness

General principle

3.21. (1) A recognized clearing house, a central securities depository or settlement system must be efficient and effective in meeting the requirements of its participants and the markets it serves.

Presumption

(2) For the purposes of subsection (1), the clearing house, the central securities depository or the settlement system establishes that it is operating efficiently and effectively if it demonstrates that it,

(a) meets the needs of its participants and the markets it serves, in particular, with regard to:

- (i) choice of a clearing, depository and settlement arrangement;
- (ii) operating structure;
- (iii) scope of products cleared, deposited, settled, or recorded; and
- (iv) use of technology and procedures;

(b) has clearly defined goals and objectives that are measurable and achievable including minimum service levels, risk-management expectations, and business priorities, and

(c) has mechanisms for the regular review of its efficiency and effectiveness.

Communication procedures and standards

General principle

3.22. (1) A recognized clearing house, central securities depository or settlement system must use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient clearing, settlement, depository, recording and payment processes.

Systems that translate or convert data

(2) Where a recognized clearing house, central securities depository or settlement system does not itself use internationally accepted communication standards, it must accommodate systems that translate or convert data from international standards into the domestic equivalent and vice versa.

Transparency

General principle

3.23. (1) A recognized clearing house, central securities depository or settlement system must have clear and comprehensive rules and procedures that are fully disclosed to participants and provide sufficient additional information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the clearing house, central securities depository or settlement system.

(2) All relevant rules and key procedures of the clearing house, central securities depository or settlement system must be publicly disclosed on its Website.

Understanding risks

(3) Without limiting subsection (1), a recognized clearing house, central securities depository or settlement system must disclose to its participants the following in order that they can assess the risks they would incur by participating in the clearing house, central securities depository or settlement system:

(a) its systems' design and operations; and

(b) the rights and obligations of the clearing house, central securities depository or settlement system and its participants.

(4) Without limiting subsection (1), a recognized clearing house, central securities depository or settlement system must provide all necessary and appropriate documentation and training to facilitate participants' understanding of its rules and procedures and the risks they face from participating in the clearing house, central securities depository or settlement system.

Changes to rules and procedures

(5) A recognized clearing house, central securities depository or settlement system must have a clear and fully disclosed process for proposing and implementing changes to its rules and procedures and for informing participants and the Authority of these changes.

Disclosure of fees

(6) A recognized clearing house, central securities depository or settlement system must publicly disclose on its Website its fees at the level of individual services it offers as well as its policies on any available discounts.

(7) The clearing house, the central securities depository or settlement system must also provide clear descriptions of priced services for comparability purposes.

Disclosure framework and basic data

(8) A recognized clearing house, central securities depository or settlement system must complete regularly and disclose publicly on its Website responses to the CPSS-IOSCO FMI Disclosure Framework Document.

(9) The clearing house, the central securities depository or settlement system must also, at a minimum, publicly disclose on its Website basic data on transaction volumes and values.

PART 4 EXEMPTIONS

Exemption

4.1. The Authority may grant an exemption from this Regulation, in whole or in part, subject to such conditions or restrictions as may be imposed in the exemption.

PART 5 EFFECTIVE DATES AND TRANSITION

Effective date

5.1. (1) Except as provided in subsections (2) to (5), this Regulation comes into force on the *** day after this Regulation is approved by the Minister.

(2) Sections 3.4 to 3.7 come into force on March 31, 2015.

(3) Section 3.14 comes into force on the later of

(a) the day on which this Regulation comes into force in accordance with subsection (1), and

(b) the day on which a regulation on customer clearing and protection of customer collateral and positions comes into force;

(4) Paragraphs 3.3(3)(b), (c) and (d) and subsection 3.15(3) come into force on January 1, 2016.

(5) Subparagraph 3.17(12)(c)(i) and section 3.19 come into force on June 30, 2015.

**FORM 24-503F1
SUBMISSION TO JURISDICTION AND APPOINTMENT OF AGENT FOR
SERVICE OF PROCESS**

1. Name of clearing house, central securities depository or settlement system (each of them, the “entity”):

2. Jurisdiction of incorporation, or equivalent, of the entity:

3. Address of principal place of business of the entity:

4. Name of the agent for service of process for the entity (the “Agent”):

5. Address of Agent for service of process in Québec:

6. The entity 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 entity in Québec. The entity hereby irrevocably waives any right to challenge service upon its Agent as not binding upon it.
7. The entity agrees to unconditionally and irrevocably attorn to the non-exclusive jurisdiction of (i) the courts and administrative tribunals of Québec 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 entity in Québec.
8. The entity shall file a new submission to jurisdiction and appointment of agent for service of process in this form at least 30 days before it ceases to be designated or exempted by the Authority, to be in effect for six years from the date it ceases to be designated or exempted unless otherwise amended in accordance with section 9.
9. Until 6 years after it has ceased to be a designated or exempted by the Authority from the recognition requirement, the entity 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.
10. This submission to jurisdiction and appointment of agent for service of process shall be governed by and construed in accordance with the laws of Québec.

Dated: _____

Signature of the entity

Print name and title of signing
officer of the entity

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 entity) and hereby consent to act as agent for service pursuant to the terms of the appointment executed by _____ (insert name of the entity) 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 24-503F2
CESSATION OF ACTIVITIES REPORT**

1. Identification:
 - A. Full name of the recognized or exempted clearing house, central securities depository or settlement system (each of them, the “entity”):
 - B. Name(s) under which activities is conducted, if different from item 1A:
2. Date the entity proposes to cease carrying on activities as a clearing house, a central securities depository or a settlement system:
3. If cessation of activities was involuntary, date the entity has ceased to carry on activities as a clearing house, a central securities depository or a settlement system:

Exhibits

File all Exhibits with the Cessation of Activities Report. For each exhibit, include the name of the entity, 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 entity ceasing to carry on activities as a clearing house, a central securities depository or a settlement system.

Exhibit B

A list of all participants during the last 30 days prior to ceasing activities as a clearing house, a central securities depository or a settlement system.

Exhibit C

A description of the alternative arrangements available to participants in respect of the services offered by the entity immediately prior to the cessation of activities as a clearing house, a central securities depository or a settlement system.

Exhibit D

A description of all links the entity had immediately prior to the cessation of activities as a clearing house, a central securities depository or a settlement system with other clearing houses, central securities depositories, settlement systems or trade repositories, within the meaning of section 3.20 of Regulation 24-503 respecting Clearing House, Central Securities Depository and Settlement System Requirements.

**CERTIFICATE OF CLEARING HOUSE, CENTRAL SECURITIES DEPOSITORY
OR SETTLEMENT SYSTEM**

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

DATED at _____ this _____ day of _____ 20 _____

(Name of the entity)

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

(Signature of director, officer or partner)

(Official capacity – please type or print)