

# CCLS Education Sub-Committee

## Annual Conference

Montréal Exchange

A Derivatives Market

November 30, 2023



# Montreal Exchange ecosystem

## Montreal Exchange (MX):

- Canada's oldest exchange - first established under legal charter in 1874 as the Montreal Stock Exchange;
- Provides a comprehensive electronic market dedicated to the growth of the Canadian derivative market;
- Revised Recognition Order No. 2023-PDG-0012 recognizes MX as an exchange and self-regulatory organization (dated April 4, 2023)

## Canadian Derivatives Clearing Corporation (CDCC)

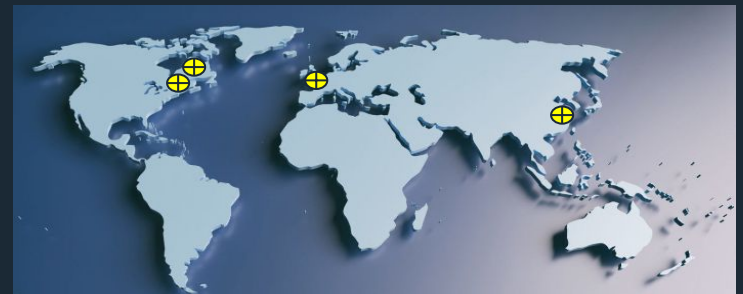
- Clearing and Settlement of derivatives contracts traded on MX
- Central counterparty focused on risk management and operations

## Regulatory Division

- Responsible for the regulatory functions of MX
- Carries on its activities as an independent unit separate from the other activities of MX

## International Presence

- Offices located in
  - Canada: Montreal, Toronto
  - United States: New York
  - Europe: London
  - Asia: Hong Kong
- Participants
  - 63 participants based in Canada, US, UK
- Diversified Client base
  - 40+ countries, including Australia, Brazil, Ireland, Hong Kong, India, Singapore, Germany, Poland, France, Israel, Bahamas, Norway, Abu Dhabi



# Activities of MX and CDCC

## Financial Markets

- Product team (Interest Rate and Equity Derivatives)
- Client relationship management (CRM)
- Market Operations
- Management / Strategy team
- Finances and Marketing

## Information Technology (IT)

- Trading and clearing Infrastructure management
- Platform and post-trade services

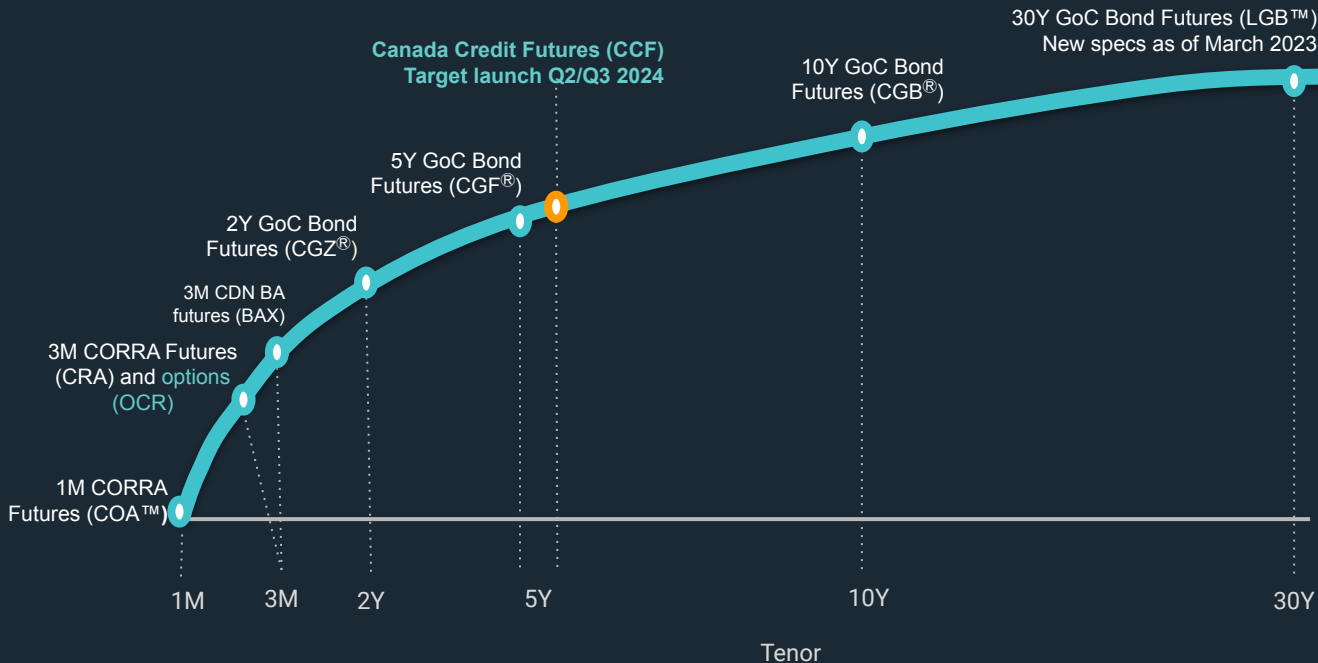
## Legal Affairs

- Ensure legal compliance of the MX and CDCC

## CDCC

- Clearing and Settlement of Derivatives contracts traded on MX
- Clearing and Settlement of Canadian Fixed Income & Repo & Customized financial instruments trading OTC - Converge®
- Central counterparty focused on risk management and operations

# IRD: MX is building out the curve



## 2024 INITIATIVES

### Options on 3M CORRA Futures

- Underlying: CRA™
- To replace Options on BAX®
- Building on existing CORRA ecosystem

→ Expected launch: **Q1 2024**

### Canada Credit Futures (CCF)

- Underlying: New FTSE Index
- Unique credit-index derivative
- Untapped fixed income demand

→ Expected launch: **Q2/Q3 2024**

# EQD: Diverse product offering

## Index Derivatives:

- S&P/TSX 60 Index\* Futures (SXF<sup>®</sup>) and S&P/TSX Index Options (SXO<sup>®</sup>)
  - SXF is a flagship contract to get exposure to the Canadian equity market
  - ADV of 32k contracts / Open interest of 287k contracts
- Sector Index Futures and Options (Financials, Energy, Technology, Real Estate, etc.)
- S&P/TSX Dividend Index\* Futures (SDV<sup>™</sup>)
- S&P/TSX Composite ESG Index\* Futures (SCG<sup>™</sup>) and S&P/TSX 60 ESG Index\* Futures (SEG<sup>™</sup>)

## Share Futures (SSF):

- Futures contracts on Canadian listed securities (95 classes, 77 on stocks and 18 on ETFs)
  - ADV of 63k contracts / Open interest of 616k contracts

## Equity Options (255 classes) and ETF Options (50 classes)

- ADV of 250k contracts / open interest of 14M+ contracts
- Monthly and weekly options available for trading

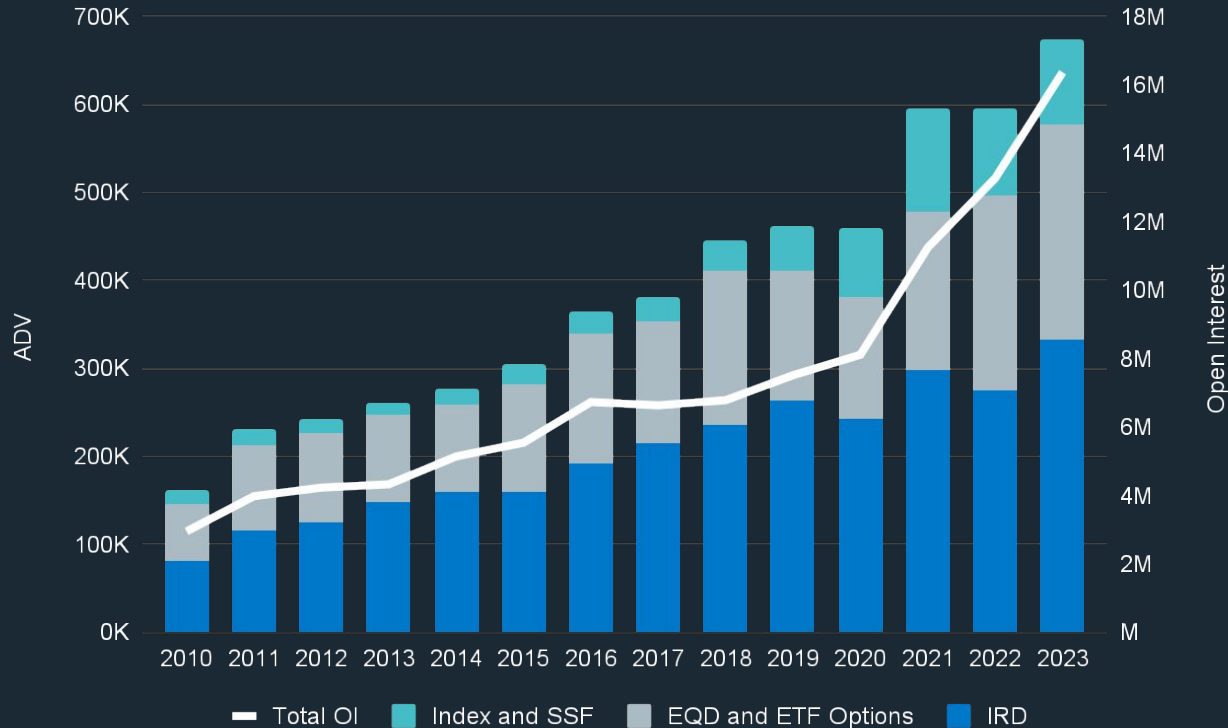
## Basis Trade on Close (BTC) functionality

## Upcoming launch of Bitcoin Price Index Futures (Jan 2024)

- Underlying: CoinDesk Bitcoin Price Index (XBX)

# MX has maintained 9% CAGR in ADV since 2018

*Strong performance over the years. Recent figures: 680k contracts traded daily, 17M of open interest*



**Futures ADV: +14% vs 2022**

**Options ADV: +12% vs 2022**

**Interest rate derivatives:**  
ADV up 21% from 2022, due to outperformance in CGF, CGZ and CRA volumes consistently reaching new highs.

**Equity derivatives:**  
ADV up 6% from 2022 with new records reached in volume and open interest for ETF options in Q1 and a rise in volumes for Equity Options in Q2.

# How CDCC Sits within TMX

## TMX Group Limited

**TMX Group Limited (TMX Group)** – Public holding company for the vertically integrated TMX Group.

Operates global markets, and builds digital communities and analytic solutions that facilitate the funding, growth and success of businesses, traders and investors.

→ **MONTRÉAL EXCHANGE  
INC.**

**Montréal Exchange Inc. (MX)** – A wholly-owned subsidiary of TMX Group.

Canada's only standardized financial derivatives exchange, offering expertise in financial derivatives, information technology and clearing services. It aims to operate and develop high quality market services for Canadian and international clients.

→ **CANADIAN DERIVATIVES  
CLEARING CORPORATION**

**Canadian Derivatives Clearing Corporation (CDCC)** – Wholly-owned subsidiary of MX.

Offers clearing and settlement services for all transactions carried out on MX and certain OTC derivatives. It is the only clearinghouse in North America to offer clearing services on equity options, futures and options on future products.

# CDCC Operating Environment

- Two regional offices
- Two languages





# CDCC Business Overview

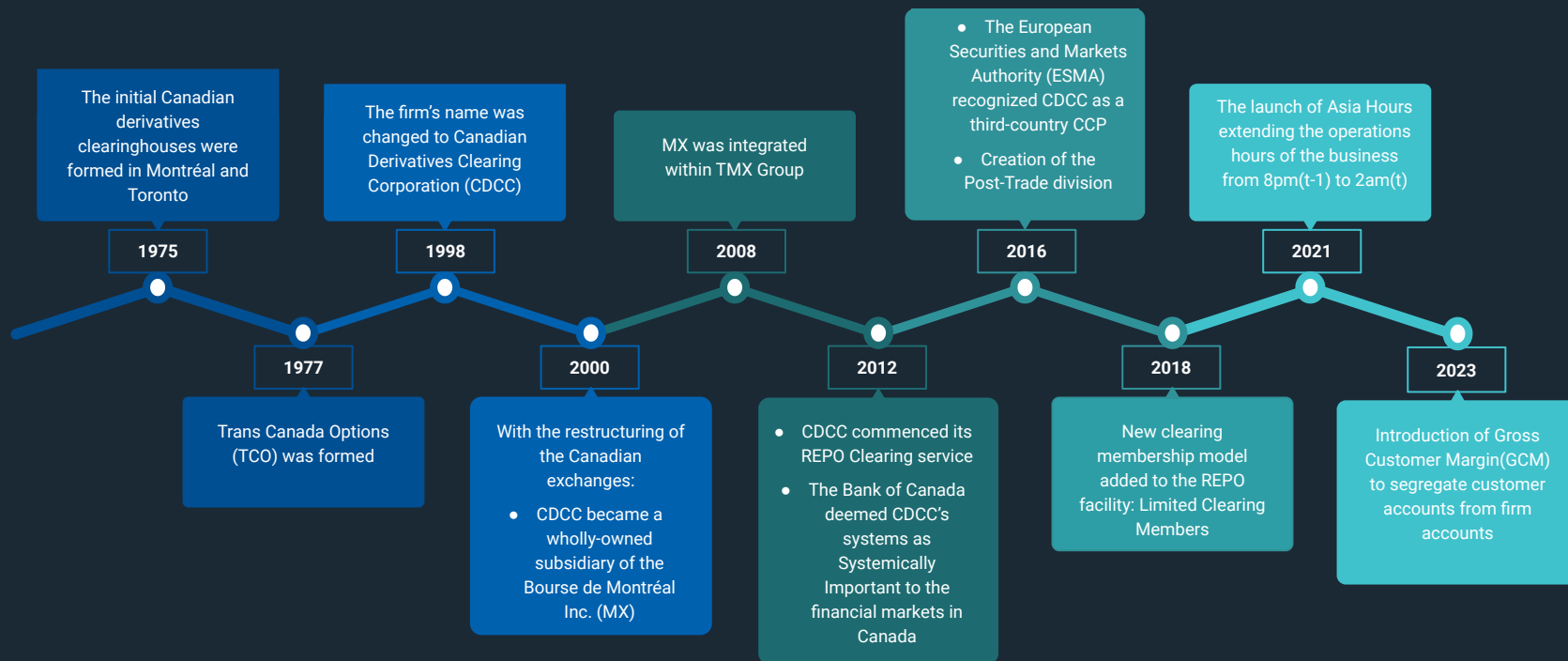
- CDCC has a respected track record of supporting Canadian derivatives markets through periods of rapid growth, volatility and financial crisis
- An integrated central counterparty clearing (CCP) in North America, that clears:
  - Exchange Traded Derivative products in Canada (MX) – Interest rate, index and share futures, and equity, ETF and currency options
  - Canadian Fixed Income & Repo
  - Customized financial instruments trading OTC – Converge®
- Over 35 year track record as CCP and guarantor of exchange-traded derivatives in Canada
- More than 30 clearing members – including major Canadian dealers, banks, and subsidiaries of global financial institutions
- CDCC is the CCP for all Montréal Exchange listed derivative products. It delivers the key benefits of lower costs, lower risk and greater confidence in the markets during times of market volatility and uncertainty
- In 2016, the European Securities and Markets Authority (ESMA) recognized CDCC as a third-country CCP

# CDCC is a critical infrastructure for the Canadian financial markets

## CDCC plays a key role in the capital markets

- CDCC offers clearing and settlement services for all MX transactions, including Futures and Options as well as OTC Fixed Income, including cash and repurchase agreements
- CDCC is an integrated central counterparty (CCP) that clears securities options, financial futures, OTC instruments and fixed income in Canada
- The core business strategy of CDCC is to build on established strengths in three key areas of CCP performance:
  - i) Risk management
  - ii) Legal and regulatory framework
  - iii) Operations, technology and clearing infrastructure
- CDCC framework is key to effectively managing credit and systemic risk

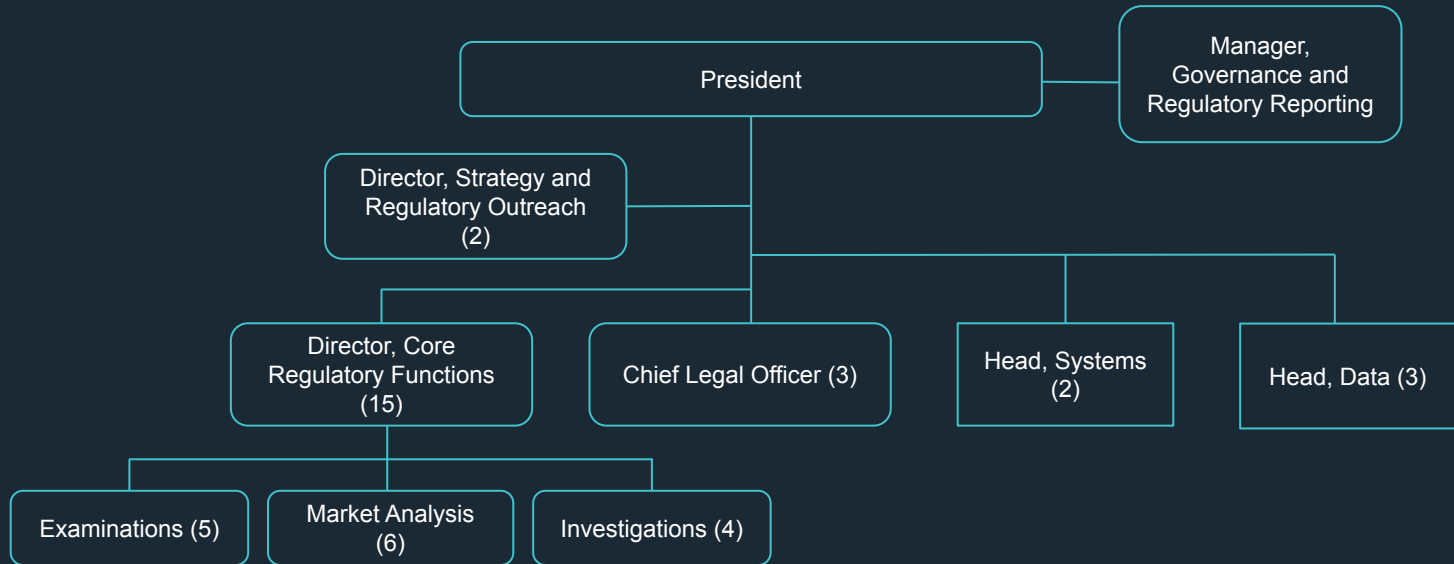
# CDCC Historic Milestones



# The Regulatory Division

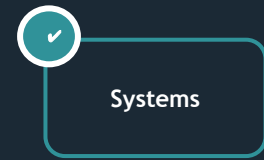
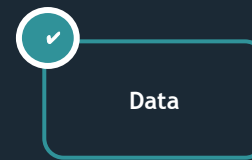
## Governance:

- Under the oversight of the Self-Regulatory Oversight Committee, nominated and appointed by MX's Board of Directors
- Division operates as a separate, independent and self-funded unit of MX

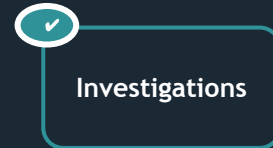


# The Regulatory Division

## Services:



## Activities:



# Extended Hour project

Extended trading hours provide investors more opportunities to trade Canadian derivatives, hedge risk and optimize portfolios, in their local time and when it's convenient for them. Investors from around the world can begin trading on the Montreal Exchange at the same time as their local exchange hours: 8:00 PM ET (T-1) to 4:30 PM ET (T)

## MX

- Trading models: products, trading stages, and trading support
- Trading hours: complete review of operational timeline of the trading services
- Market liquidity considerations

## CDCC

- Enhanced Operational model and clearing infrastructure to capture full trading cycle
- Ability for increased oversight, collateral management and payment flexibility during European/Asian hours to provide greater mitigation of risks & exposures
- Rule changes and updated Governance: approval from Bank of Canada, AMF & OSC

## Regulatory Division

- Trade surveillance extended to capture new trading hours
- Alerts parameters were adapted

# The CDOR to CORRA transition is underway

**CORRA First:** On Jan. 9, new interbank linear derivatives should cease to use CDOR.

**1mo CRA futures:** Monthly expiries starting Jan. 23.

**New CDOR cessation:** At the end of June, no new CDOR exposures (except to hedge existing CDOR exposures).

**No new CDOR or BA loan:** At the end of November, all new loan contracts must reference only CORRA, Term CORRA, or prime.

**All CDOR cessation:** At June end, no more transactions in products using CDOR. Existing products move to fallbacks.



**CORRA First:** On March 27, new interbank nonlinear derivatives and XCS should cease to use CDOR.

**Term CORRA:** Launch of 1M and 3M Term CORRA rate based on CORRA futures (inputs).

**BAX Conversion:** Conversion of all eligible BAX futures to equivalent 3M CORRA futures contracts in Q2 2024.

# Current CDCC initiatives

## T+1

- Industry wide initiative to migrate to a standard T+1 settlement cycle in Canada on May 27, 2024
- At CDCC, minor modifications are required in the technological infrastructure in order to support the move to T+1 settlement, as well as minor adjustments in the rules and risk management activities

## CDOR to CORRA transition

- Rule Changes to enable CDCC to convert all remaining open BAX positions to their equivalent CORRA Futures positions on April 26th, 2024 (after Market close).

## SGC ('Secured General Collateral') Notes : An innovative cash money-market instrument designed for the BA transition

- SGC Notes are Canadian dollar short-term secured debt instruments that provide institutional investors with a viable investment alternative to Banker Acceptances (BAs), a which will cease to exist following the retirement of CDOR in June 2024
- BAs are the second largest money market instrument after Government of Canada treasury bills, valued at approximately C\$90 billion
- SGC Notes are expected to be available to investors in late Q1 2024, pending all regulatory approvals

Ref.: [https://www.cdcc.ca/u\\_avis\\_en/126-23\\_en.pdf](https://www.cdcc.ca/u_avis_en/126-23_en.pdf)



# For more information

## MX

Alexandre Prince  
Executive Director, Interest Rate Derivatives  
Montreal Exchange  
[alexandre.prince@tmx.com](mailto:alexandre.prince@tmx.com)

## Regulatory Division

Karen McMeekin  
President, Regulatory Division  
Montreal Exchange  
[karen.mcmeeekin@tmx.com](mailto:karen.mcmeeekin@tmx.com)

## CDCC

Elie Elkhail  
Director, Business Development  
CDCC  
[elie.elkhail@tmx.com](mailto:elie.elkhail@tmx.com)

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