



INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

www.iiac.ca

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Delivered Via Email:

legal@tmx.com; consultation-en-cours@lautorite.qc.ca; marketregulation@osc.gov.on.ca

M^e Sophie Brault
Legal Counsel
Canadian Derivatives Clearing Corporation
1800-1190 av des Canadiens-de-Montréal
P.O. Box 37
Montréal, Québec H3B 0G7

M^e Philippe Lebel
Corporate Secretary and Executive Director, Legal Affairs
Autorité des marchés financiers
Place de la Cité, tour Cominar
2640 Laurier boulevard, suite 400
Québec, Québec G1V 5C1

Manager, Market Regulation
Market Regulation Branch
Ontario Securities Commission
Suite 2200, 20 Queen Street West
Toronto, Ontario M5H 3S8

Dear M^e Brault, M^e Lebel and OSC Market Regulation,

Re: Canadian Derivatives Clearing Corporation – Request for Comments – Amendments to Rule A-9 and to Rule B-3 of the Canadian Derivatives Clearing Corporation concerning Adjustments in Contract Terms

The Investment Industry Association of Canada (the "IIAC") and its members would like to take this opportunity to express their views on the proposed amendments (the "Proposal") to Rule A-9 and to Rule B-3 of the Canadian Derivatives Clearing Corporation ("CDCC") regarding adjustments in contract terms as per CDCC Notice 2020-145 (the "Notice") issued on November 3, 2020.

The IIAC is the national association representing the position of 115 IIROC-regulated dealer member firms on securities regulation, public policy and industry issues. We work to foster a vibrant, prosperous investment industry driven by strong and efficient capital markets.

Proposed Amendments

The Notice states:

CDCC proposes amending its Rules (the "Rules"), by modifying certain sections of Rule A-9, *Adjustments in Contract Terms*, in order to provide additional guidance related to adjustments to contract terms.

In addition, CDCC proposes amending the Section B-310 of Rule B-3, *Acceleration of Expiration Date*, to allow acceleration of the nearest month term when an equity option contract is adjusted.

The Notice also states that it wishes to "enhance the predictability and consistency of the CDCC Rules relating to contract terms adjustments resulting from corporate action events".

The Notice goes on:

The proposed amendments are intended to ensure that corporate action events are handled and executed under sound governance and practices in accordance with CDCC Rules. In addition, the changes will provide useful additional guidelines on how contracts will be adjusted following a corporate action event and thus, should make the process for adjustments more predictable for all market participants.

Position of the Industry

The IIAC and its members welcome sound governance and practices. We also welcome predictability for industry members.

However, we are concerned that the Adjustment Committee, under the revised framework, continues to have overriding discretion in a number of instances that are binding on investors and Clearing Members alike, and not subject to review.

We have further concerns that the members of the Adjustment Committee remain anonymous and that there is no procedure or format to review and/or measure the decisions of any individual committee member for consistency or other factors. The IIAC and its members believe that increased transparency is needed in the process.

Regarding Rule A-9, we note that the Proposal states that dividend thresholds will be used “by expressing them as the Canadian dollar equivalent of US \$0.125 per share and US \$12.50 per contract, respectively”. As most dividends in Canada are in Canadian dollars, we suggest that the CDCC provides an outline describing the benchmark it will reference for USD-CAD conversion. The market benefits from transparency and predictability in these instances and would greatly appreciate an outline for currency conversion.

We further note that the framework description states:

Adjustments pursuant to this Section A-902 as a general rule shall become effective in respect of Transactions outstanding on the “ex-dividend date” established by the exchange or exchanges on which the Underlying Interest is traded. In the event that the “ex-dividend date” for an Underlying Interest traded on exchanges differs from one exchange to another, the Corporation shall deem the earliest date to be the “ex-dividend date” for the purposes of this Section A- 902. “Ex-dividend dates” established by any other exchange or exchanges on which an Underlying Interest may be traded shall be disregarded.

Regarding the above, we question whether an exception should be made in the case of an earlier ex-dividend date occurring in a foreign jurisdiction due to a holiday.

Conclusion

The IIAC and its members would like to stress that adjustments have serious implications for end users. Furthermore, there remains little recourse for those impacted and looking for review. Added transparency is required to improve the process.

To further enhance this process, we encourage the CDCC to devote as many resources as possible to the adjustment process. We would urge the CDCC to publicly commit to always having senior executive representation on its Adjustment Committee. Furthermore, during times when the CDCC may not be able to commit such resources, we suggest it may consider committing broader TMX resources.

Please note that the IIAC and its members, as always, remain available for further consultations.

Yours sincerely,



Annie Sinigagliese
Managing Director, Investment Industry Association of Canada
Asinigagliese@iiac.ca