

13.3 Clearing Agencies

13.3.1 Material Amendments to CDS Rules and Procedures – The CDCC Interface – Notice and Request for Comments

CDS Clearing and Depository Services Inc. (CDS[®])

MATERIAL AMENDMENTS TO CDS RULES & PROCEDURES

THE CDCC INTERFACE

NOTICE AND REQUEST FOR COMMENTS

A. DESCRIPTION OF THE PROPOSED CDS RULE & PROCEDURE AMENDMENTS

The proposed amendments address the industry requirement for connectivity between CDS and the Canadian Derivatives Clearing Corporation (“CDCC”) in order to implement the latter’s fixed income clearing facility (“SOLA”). CDCC’s facility will initially be able to process repurchase agreements (repos) for Canadian financial market participants, with the processing of fixed income cash trades being permitted shortly thereafter. This facility will receive trade information from CDS and clear the trades prior to their being settled in CDSX between CDCC, as a CDS participant, and another CDS participant. This industry development requires CDS to make changes to its systems and material amendments to its participant rules and procedures.

In December 2009, the Investment Industry Association of Canada (“IIAC”) received a mandate to develop a fixed income clearing facility for repos. Following a request-for-proposals (“RFP”) process, CDCC was requested by IIAC to develop this facility. CDS has recently been asked - by an IIAC-led steering committee - to modify CDS’s systems and its rules and procedures to accommodate the facility.

More specifically, the proposed amendments will:

- Create a new mode of settlement indicator enabling participants to instruct CDS to report trades so-identified to a Third Party Clearing System (“TPCS”)
- Permit CDS to report trades to CDCC as a TPCS
- Limit CDS liability in respect of trades or trade information received from a TPCS
- Specify the settlement process by which trades reported to CDS by a TPCS are settled
- Permit partial settlement of trades from CDCC as a TPCS

B. NATURE AND PURPOSE OF THE PROPOSED CDS RULE & PROCEDURE AMENDMENTS

Both the proposed rule and procedure amendments are considered material, as they implement a new process flow and connectivity with the CDCC and its fixed income clearing facility and redefine CDS’s role in the transmission of information from its participants to third parties while minimizing changes to their in-house and back-office vendor’s systems.

C. IMPACT OF THE PROPOSED CDS RULE & PROCEDURE AMENDMENTS

Under the new process, confirmed trades that are reported to CDS with a settlement indicator of SNS will be reported to CDCC for clearing. Trades with an SNS settlement indicator will not be eligible for settlement by CDSX; CDS will be acting only in the capacity of an intermediary that communicates transactional information between participants and CDCC. Novated Trades will then be reported back to CDS by CDCC, with a settlement indicator of TFT, as a confirmed trade for settlement in CDSX, via the Trade-for-Trade settlement process, with CDCC and another participant as the parties to the trade. If CDCC rejects a trade under this process, CDS will advise the submitter of the trade using existing processes and procedures. The submitter will be required to modify the transaction as needed in order for it to clear and settle the trade on an appropriate basis (i.e., Trade-for-Trade or through CDS’s existing FINet[®] service on a net basis).

C.1 Competition

The rule and procedure amendments are being proposed to support the CDS system changes that will allow CDCC to implement a competing solution to FINet as a result of the IIAC RFP process and the requirements of industry participants.

C.2 Risks and Compliance Costs

The proposed amendments are not expected to change the risk profile of CDS or its participants. It is expected that CDCC will settle its fixed income central counterparty trades as a receiver of credit in CDSX and that no changes to the risk model will be required. The payment obligations of CDCC resulting from fixed income settlement will be supported by an extender of credit providing an adequate line of credit to CDCC. Further, the proposed amendments are not expected to result in changes or increases to compliance costs for CDS, its participants, or other market participants.

C.3 Comparison to International Standards – (a) Committee on Payment and Settlement Systems of the Bank for International Settlements, (b) Technical Committee of the International Organization of Securities Commissions, and (c) the Group of Thirty

The proposed system changes and rule and procedure amendments are consistent with international standards and recommendations previously set forth by the International Organization of Securities Commissions and the Committee on Payment and Settlement Systems of the Bank for International Settlements. The process is intended to increase securities repurchase agreement volumes and enhance market liquidity through a more efficient use of such securities.

D. DESCRIPTION OF THE RULE & PROCEDURE DRAFTING PROCESS

D.1 Development Context

The industry's desire for an alternative, additional fixed income clearing facility, currently being developed by the CDCC on behalf of the IIAC, is the impetus for the proposed rule and procedure amendments and the systems changes which the proposed amendments will implement. The systems changes and rule and procedure amendments are intended to minimize the impact to the current roles, practices, and systems of all affected market participants.

D.2 Rule & Procedure Drafting Process

Each amendment to the CDS participant rules is reviewed by CDS's Legal Drafting Group ("LDG"). The LDG is a committee that includes members of participants' legal and business groups. The LDG's mandate is to advise CDS management and the CDS Board of Directors on rule amendments and other legal matters relating to centralized securities depository and clearing services in order to ensure that they meet the needs of CDS, its participants and the securities industry.

The proposed rule amendments were reviewed by the LDG on October 22nd, 2010, and approved by the Board of Directors of CDS Ltd. on November 3rd, 2010.

CDS procedure amendments are reviewed and approved by CDS's Strategic Development Review Committee ("SDRC"). The SDRC determines or reviews, prioritizes and oversees CDS-related systems development and other changes proposed by participants and CDS. The SDRC membership includes representatives from the CDS participant community and the committee meets on a monthly basis.

The proposed procedure amendments were reviewed and approved by the SDRC on November 3, 2010.

D.3 Issues Considered

The primary considerations in the development of the rules and procedures in response to the industry initiative were twofold: first, development of the process and the legal framework was intended to minimize effects on market participants' processes, practices, and systems; and second, the minimal changes required, and the desire to leave systems as unchanged as possible, were with the goal of meeting the industry-mandated timeline of a January implementation date. The effect of the proposed rules and procedures is to allow trades to be cleared (novated and netted) prior to being reported by CDCC to CDS for settlement, and the proposed amendments themselves have been minimized to the furthest extent possible.

D.4 Consultation

In addition to direct consultation with market participants at the IIAC in respect of the process, and the instructions given in that forum, CDS has, as noted above, sought the views, input, and contributions of those of its participants who participate in CDS's LDG in respect of the proposed rule and procedure amendments.

D.5 Alternatives Considered

As the fixed income clearing facility is an industry initiative, alternatives to the new fixed income clearing facility process were considered at the outset of that initiative. In respect of the presently proposed amendments, CDS was asked only to develop a solution that would implement the CDCC fixed income clearing facility with a minimum of development required by CDS's participants and other affected market participants.

D.6 Implementation Plan

CDS is recognized as a clearing agency by the Ontario Securities Commission pursuant to section 21.2 of the Ontario *Securities Act*. The *Autorité des marchés financiers* has authorized CDS to carry on clearing activities in Québec pursuant to sections 169 and 170 of the Québec *Securities Act*. In addition CDS is deemed to be the clearing house for CDSX[®], a clearing and settlement system designated by the Bank of Canada pursuant to section 4 of the *Payment Clearing and Settlement Act*. The Ontario Securities Commission, the *Autorité des marchés financiers* and the Bank of Canada will hereafter be collectively referred to as the "Recognizing Regulators".

The amendments to the participant rules may become effective on or after date of approval of the amendments by the Recognizing Regulators following public notice and comment.

E. TECHNOLOGICAL SYSTEMS CHANGES

E.1 CDS

CDS's systems will be modified to accommodate the interface such that the system will support trade submission and confirmation through CDSX. CDSX will perform edits as described in the procedures, provide zero-netting to Inter-Dealer bond Brokers and deliver targeted trades to CDCC's fixed income CCP. CDS will also be receiving information from CDCC, which will communicate net position details and settlement instructions using (modified) CDSX trade functionality. Finally, the changes will also include a partial settlement engine for trades sourced from CDCC's CCP.

In particular, new functions within CDSX include:

SOLA-Net, a real-time process that will deliver identified trades to CDCC for subsequent processing.

Mode of Settlement Conversion, whereby a SOLA-Net eligible trade may be modified by CDSX such that the mode of settlement will be changed to TFT for settlement.

and,

Partial Settlement of SOLA-Net Trades, which operates in a similar fashion as the partial settlement function in FINet. That is, if a trade can settle in its entirety, it will. Otherwise, the settlement function will determine what portion of the trade it can settle and split the trade to allow that settlement to happen. The split trades will carry the same details as the original, with the exception of the financial details (quantity and net amount). Trades eligible for partial settlement are those delivered to CDS by CDCC (SOLA) and those split by CDS. Trades delivered to CDS will always have a designated CDCC CUID on either side (buyer, seller) of the trade. The trades will carry a mode of settlement equal to TFT. The CDCC CUID will be defined as a clearing organization.

E.2 CDS Participants

CDS participants' systems will be required to determine which transactions should be reported to a TPCS, and will be required to assign a TPCS mode of settlement in order to instruct CDS accordingly. Further, participants' systems will be required to identify the short and long legs of a repurchase transaction through the use of an identification link assigned to the individual leg transactions. Finally, participants' systems will be required to recognize a new label indicating that the transaction had been novated by a TPCS, a process similar to the current "Deleted by FINet" label in the FINet process.

E.3 Other Market Participants

Inter-Dealer Brokers will use processing similar to CDS's VMU (Virtual Matching Utility) process to feed pre-confirmed "locked-in" transactions for blind repo transactions to CDSX.

Where a CDS participant's systems are operated by a third-party vendor, the vendor will be required to make substantially similar modifications to systems as appear in section E.2, above.

F. COMPARISON TO OTHER CLEARING AGENCIES

Netting and novation of fixed income repo trades in the U.S. market occur through the Fixed Income Clearing Corporation (FICC); a subsidiary of the Depository Trust & Clearing Corporation (DTCC). FICC nets and novates transactions on a near real-time basis and provides counterparties with net outstanding obligations on a current and forward-dated basis. Repo transactions with a "start" or "on" leg of the current day are novated by FICC. The "end" or "off" legs are future dated and are novated and netted, with settlement taking place on the net obligation on the value date. In each case the security obligation settles through the Federal Reserve and the funds component is settled through Fedwire.

The model being developed by CDCC follows roughly that of LCH.Clearnet, an independent clearing house that is based in London, U.K. LCH.Clearnet operates RepoClear, a market utility that nets and novates bond and repo transactions between industry participants in 13 European markets. Settlement of these net obligations that have reached their value date is done at the depository in each market.

G. PUBLIC INTEREST ASSESSMENT

CDS has determined that the proposed amendments to the CDS rules and procedures are not contrary to the public interest.

H. COMMENTS

Comments on the proposed amendments should be in writing and submitted within 30 calendar days following the date of publication of this notice in the Ontario Securities Commission Bulletin to:

Legal Department
CDS Clearing and Depository Services Inc.
85 Richmond Street West
Toronto, Ontario M5H 2C9

Fax: 416-365-1984
e-mail: attention@cds.ca

Copies should also be provided to the Autorité des marchés financiers and the Ontario Securities Commission by forwarding a copy to each of the following individuals:

M^e Anne-Marie Beaudoin
Secrétaire del'Autorité
Autorité des marchés financiers
800, square Victoria, 22^e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3

Télécopieur: (514) 864-6381
Courrier électronique: consultation-en-cours@lautorite.qc.ca

Manager, Market Regulation
Market Regulation Branch
Ontario Securities Commission
Suite 1903, Box 55,
20 Queen Street West
Toronto, Ontario, M5H 3S8

Fax: 416-595-8940
e-mail: marketregulation@osc.gov.on.ca

CDS will make available to the public, upon request, all comments received during the comment period.

I. PROPOSED CDS RULE & PROCEDURE AMENDMENTS

Appendix "A" contains text of current CDS participant rules marked to reflect proposed amendments as well as text of these rules reflecting the adoption of the proposed amendments.

Access the proposed amendments to the CDS Procedures on the User documentation revisions web page (<http://www.cds.ca/cdsclearinghome.nsf/Pages/-EN-blacklined?Open>) and to the CDS Forms (if applicable) on Forms online (Click View by Form Category and in the Select a Form Category list, click External review) on the CDS Services web page (www.cdsservices.ca).

Appendix B contains a marked up version of the CDS Procedures.

APPENDIX "A"
PROPOSED CDS RULE AMENDMENTS

Text of CDS Participant Rules marked to reflect proposed amendments	Text CDS Participant Rules reflecting the adoption of proposed amendments
<p>1.2.1 ...</p> <p><u>"CDCC" means the Canadian Derivatives Clearing Corporation.</u></p> <p><u>"CDCC Interface" means the process by which CDS reports Trades identified with a Mode of Settlement of SNS to CDCC for clearing prior to such Trades being settled through the CDS Services.</u></p> <p>...</p> <p><u>"Mode of Settlement" means one of CNS, TFT, or SNS.</u></p> <p>...</p> <p><u>"SNS" means SOLA Netting System.</u></p> <p>...</p> <p><u>"Third Party Clearing" means the process detailed in Rule 7.2.7.</u></p> <p><u>"Third Party Clearing System" or "TPCS" means a clearing system to which CDS is authorized to report Trades; such a system must be a CDS Participant.</u></p> <p><u>"TPCS Mode of Settlement" means an Instruction to CDS by a Participant requiring CDS to report Trade Information to a Third Party Clearing System.</u></p> <p>3.1.3 Action by a Participant</p> <p>CDS shall be entitled to rely on, and each Participant shall be bound by and shall be responsible to CDS and to other Participants for:</p> <p>(a) every communication, transaction, authorization or instruction validated by an Authentication Mechanism assigned to the Participant; and</p> <p>(b) every act of, document signed by, or communication, transaction, authorization or instruction given by, any of its Signing Officers or Authorized Individuals;</p> <p><u>(c) every communication, transaction, authorization or instruction received by CDS from a Third Party Clearing System on behalf of a Participant;</u></p> <p>3.3.7 Mandatory Trade Reporting</p> <p>All Trades between Participants in Securities that are eligible for Settlement in the Settlement Service shall be reported to CDS <u>and shall include the applicable Mode of Settlement.</u></p>	<p>1.2.1 ...</p> <p>"CDCC" means the Canadian Derivatives Clearing Corporation.</p> <p>"CDCC Interface" means the process by which CDS reports Trades identified with a Mode of Settlement of SNS to CDCC for clearing prior to such Trades being settled through the CDS Services.</p> <p>...</p> <p>"Mode of Settlement" means one of CNS, TFT, or SNS.</p> <p>...</p> <p>"SNS" means SOLA Netting System.</p> <p>...</p> <p>"Third Party Clearing" means the process detailed in Rule 7.2.7.</p> <p>"Third Party Clearing System" or "TPCS" means a clearing system to which CDS is authorized to report Trades; such a system must be a CDS Participant.</p> <p>"TPCS Mode of Settlement" means an Instruction to CDS by a Participant requiring CDS to report Trade Information to a Third Party Clearing System.</p> <p>3.1.3 Action by a Participant</p> <p>CDS shall be entitled to rely on, and each Participant shall be bound by and shall be responsible to CDS and to other Participants for:</p> <p>(a) every communication, transaction, authorization or instruction validated by an Authentication Mechanism assigned to the Participant; and</p> <p>(b) every act of, document signed by, or communication, transaction, authorization or instruction given by, any of its Signing Officers or Authorized Individuals;</p> <p>(c) every communication, transaction, authorization or instruction received by CDS from a Third Party Clearing System on behalf of a Participant;</p> <p>3.3.7 Mandatory Trade Reporting</p> <p>All Trades between Participants in Securities that are eligible for Settlement in the Settlement Service shall be reported to CDS and shall include the applicable Mode of Settlement.</p>

Text of CDS Participant Rules marked to reflect proposed amendments	Text CDS Participant Rules reflecting the adoption of proposed amendments
<p>3.3.9 Trade Management</p> <p>At any time prior to Settlement, CDS may delete a particular Trade or any class of Trades from any Service if, on the evidence reasonably available to CDS, CDS considers such action necessary or desirable in the best interests of CDS and of Participants generally or to maintain the integrity of the Services. If a Participant is suspended or terminated, CDS may delete from the Services any or all Trades (but not Central Counterparty Obligations) of that Participant that have not Settled. The deletion prior to Settlement of a Trade from any Service does not affect any rights or obligations between the Participants who are parties to that Trade, which arise from the underlying agreement between such Participants. <u>Where a Trade is submitted to CDS with a Third Party Clearing System Mode of Settlement, and where such Trade is rejected by the TPCS, CDS may, in accordance with the Procedures, and at any time prior to Settlement, modify the Mode of Settlement of a confirmed Trade between two Participants from its initial Mode of Settlement.</u></p> <p>4.1.3 Indemnity by Participant Regarding Services Generally</p> <p>Each Participant shall indemnify and hold harmless CDS, Nominees and all other Participants, and their respective partners, directors, trustees, officers, employees and agents, from and against any loss, damage, cost, expense, liability or claim (including the cost of legal counsel to advise on or defend against such claims) suffered or incurred by or made against it, them or any of them arising from:</p> <p>(a) any interruption, malfunction or disruption of any Service to the extent caused or contributed to by any negligent, reckless, willful, fraudulent or dishonest act or omission of the Participant, <u>a Third Party Clearing System, or of any director, trustee, officer, partner, employee, servant, contractor or agent of the Participant or Third Party Clearing System done while acting in the course of office or employment or made possible by information or opportunities afforded by such office or employment;</u></p> <p>(b) any incorrect instructions, information or documentation provided to CDS <u>by the Participant or by a Third Party Clearing System used by the Participant;</u> and</p> <p>(c) any breach by the Participant of its obligations, representations or warranties under the Legal Documents.</p> <p>4.1.4</p> <p>...</p> <p>(g) the failure of the Participant to provide or cause to be provided a declaration as required;</p>	<p>3.3.9 Trade Management</p> <p>At any time prior to Settlement, CDS may delete a particular Trade or any class of Trades from any Service if, on the evidence reasonably available to CDS, CDS considers such action necessary or desirable in the best interests of CDS and of Participants generally or to maintain the integrity of the Services. If a Participant is suspended or terminated, CDS may delete from the Services any or all Trades (but not Central Counterparty Obligations) of that Participant that have not Settled. The deletion prior to Settlement of a Trade from any Service does not affect any rights or obligations between the Participants who are parties to that Trade, which arise from the underlying agreement between such Participants. Where a Trade is submitted to CDS with a Third Party Clearing System Mode of Settlement, and where such Trade is rejected by the TPCS, CDS may, in accordance with the Procedures, and at any time prior to Settlement, modify the Mode of Settlement of a confirmed Trade between two Participants from its initial Mode of Settlement.</p> <p>4.1.3 Indemnity by Participant Regarding Services Generally</p> <p>Each Participant shall indemnify and hold harmless CDS, Nominees and all other Participants, and their respective partners, directors, trustees, officers, employees and agents, from and against any loss, damage, cost, expense, liability or claim (including the cost of legal counsel to advise on or defend against such claims) suffered or incurred by or made against it, them or any of them arising from:</p> <p>(a) any interruption, malfunction or disruption of any Service to the extent caused or contributed to by any negligent, reckless, willful, fraudulent or dishonest act or omission of the Participant, a Third Party Clearing System, or of any director, trustee, officer, partner, employee, servant, contractor or agent of the Participant or Third Party Clearing System done while acting in the course of office or employment or made possible by information or opportunities afforded by such office or employment;</p> <p>(b) any incorrect instructions, information or documentation provided to CDS by the Participant or by a Third Party Clearing System used by the Participant; and</p> <p>(c) any breach by the Participant of its obligations, representations or warranties under the Legal Documents.</p> <p>4.1.4</p> <p>...</p> <p>(g) the failure of the Participant to provide or cause to be provided a declaration as required;</p>

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<p><u>(h) the reporting of a Trade to, or receipt of a Trade from, a Third Party Clearing System;</u></p> <p><u>(i) (h) the purchase, sale, redemption or cancellation of Securities by the Issuer as the result of the information contained in a declaration provided by the Participant; or</u></p> <p><u>(j) (i) any breach by the Participant of its obligations, representations or warranties under the Legal Documents.</u></p> <p>4.1.5</p> <p>...</p> <p>(c) Indemnified Claim</p> <p>For the purposes of this Rule 4.1.5, an indemnified claim is any loss, damage, cost, expense, liability or claim (including the cost of legal counsel to advise on or defend against such claims) that arises from or is in any way connected with a Service, and which is described in Rule 4.1.3 or Rule 4.1.4, or which relates to (i) Securities held by CDS for the Participant or <u>(ii) any action taken or omitted by CDS with respect to Securities held for the Participant at the time such action is taken or omitted, or</u> <u>(iii) the reporting of a Trade to or receipt of a Trade from a Third Party Clearing System on the instructions of a Participant.</u></p> <p>4.2.3 CDS Liability for Participant Loss</p> <p>CDS shall be liable to its Participants for any Participant Loss, subject to the limitations set out in Rules 4.2.5 and 4.2.9. A "Participant Loss" means any loss, damage, cost, expense, liability or claim suffered or incurred by a Participant, other than a Loss of Securities, which arises from a Participant's participation in a Service, but only to the extent such was caused or contributed to by any act or omission of CDS or of any director, officer, employee, contractor or agent of CDS done while acting in the course of office, employment or service or made possible by information or opportunities afforded by such office, employment or service. <u>Neither</u>None of <u>DTC nor</u>NSCC, <u>or a TPCS</u> shall be considered to be an agent of CDS for purposes of this Rule 4.2.3. Notwithstanding the foregoing acceptance of liability, CDS shall not be liable to a Participant for any Participant Loss in respect of which that Participant is required to make indemnification pursuant to Rules 4.1, 10.2 or 10.5, nor for any Participant Loss arising from the Delivery Services.</p> <p>7.1.1 Overview of Settlement Service</p> <p>The Settlement Service is a Service established by CDS to provide for the Settlement of Trades in eligible Securities, through the delivery of Securities and the making of payment on the records of CDS. Securities</p>	<p>(h) the reporting of a Trade to, or receipt of a Trade from, a Third Party Clearing System;</p> <p>(i) the purchase, sale, redemption or cancellation of Securities by the Issuer as the result of the information contained in a declaration provided by the Participant; or</p> <p>(j) any breach by the Participant of its obligations, representations or warranties under the Legal Documents.</p> <p>4.1.5</p> <p>...</p> <p>(c) Indemnified Claim</p> <p>For the purposes of this Rule 4.1.5, an indemnified claim is any loss, damage, cost, expense, liability or claim (including the cost of legal counsel to advise on or defend against such claims) that arises from or is in any way connected with a Service, and which is described in Rule 4.1.3 or Rule 4.1.4, or which relates to (i) Securities held by CDS for the Participant, (ii) any action taken or omitted by CDS with respect to Securities held for the Participant at the time such action is taken or omitted, or (iii) the reporting of a Trade to or receipt of a Trade from a Third Party Clearing System on the instructions of a Participant.</p> <p>4.2.3 CDS Liability for Participant Loss</p> <p>CDS shall be liable to its Participants for any Participant Loss, subject to the limitations set out in Rules 4.2.5 and 4.2.9. A "Participant Loss" means any loss, damage, cost, expense, liability or claim suffered or incurred by a Participant, other than a Loss of Securities, which arises from a Participant's participation in a Service, but only to the extent such was caused or contributed to by any act or omission of CDS or of any director, officer, employee, contractor or agent of CDS done while acting in the course of office, employment or service or made possible by information or opportunities afforded by such office, employment or service. None of DTC, NSCC, or a TPCS shall be considered to be an agent of CDS for purposes of this Rule 4.2.3. Notwithstanding the foregoing acceptance of liability, CDS shall not be liable to a Participant for any Participant Loss in respect of which that Participant is required to make indemnification pursuant to Rules 4.1, 10.2 or 10.5, nor for any Participant Loss arising from the Delivery Services.</p> <p>7.1.1 Overview of Settlement Service</p> <p>The Settlement Service is a Service established by CDS to provide for the Settlement of Trades in eligible Securities, through the delivery of Securities and the</p>

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<p>become eligible for CDSX as described in Rule 6.2; the Procedures and User Guides describe the Securities that are eligible for a particular Function in the Settlement Service. The Settlement of a Trade involves several steps:</p> <p>(a) The details of Trades between Participants that are to be Settled through the Service are reported to CDS.</p> <p><u>(b) If the Trade instructions specify a TPCS Mode of Settlement, the Trade is reported to the TPCS.</u></p> <p>(c) (b) If the Trade instructions pass the pre-entry system edits, the Trade is entered into the system to be considered for Settlement.</p> <p>(d) (e) A Trade may be Settled either (i) without pre-Settlement netting using the Trade-For-Trade method, or (ii) with pre-Settlement novation and netting using one of the CNS or FInet Functions to process Central Counterparty Obligations.</p> <p>(e) (d) The Settlement of each pending Trade using the Trade-for-Trade method is effected by means of payment and delivery of Securities between Participants. The Settlement of each outstanding Central Counterparty Obligation is effected by means of payment and delivery of Securities between Participants and CDS. Payment is made through the Settlement Service by book entry on the records of CDS. Securities are delivered either by the book delivery on the records of CDS of Securities held in the Depository Service or by the physical delivery of Security Certificates (if the Trade is to be Settled using the Certificate Based Settlement method).</p> <p><u>(f) If the Trade is reported with a TPCS Mode of Settlement, and the Third Party Clearing System has netted the Trade prior to the position's having been reported to CDS, the Trade representing the netted position will Settle on a Trade-for-Trade basis between the Participant and the Third Party Clearing System.</u></p> <p>(g) (e) There are four Settlement processes: the Intraday Continuous Net Settlement Process, the Real Time TFT Settlement Process the Combined Batch Net Settlement/Continuous Net Settlement Process and the FINet Real Time Settlement Process.</p>	<p>making of payment on the records of CDS. Securities become eligible for CDSX as described in Rule 6.2; the Procedures and User Guides describe the Securities that are eligible for a particular Function in the Settlement Service. The Settlement of a Trade involves several steps:</p> <p>(a) The details of Trades between Participants that are to be Settled through the Service are reported to CDS.</p> <p>(b) If the Trade instructions specify a TPCS Mode of Settlement, the Trade is reported to the TPCS.</p> <p>(c) If the Trade instructions pass the pre-entry system edits, the Trade is entered into the system to be considered for Settlement.</p> <p>(d) A Trade may be Settled either (i) without pre-Settlement netting using the Trade-For-Trade method, or (ii) with pre-Settlement novation and netting using one of the CNS or FInet Functions to process Central Counterparty Obligations.</p> <p>(e) The Settlement of each pending Trade using the Trade-for-Trade method is effected by means of payment and delivery of Securities between Participants. The Settlement of each outstanding Central Counterparty Obligation is effected by means of payment and delivery of Securities between Participants and CDS. Payment is made through the Settlement Service by book entry on the records of CDS. Securities are delivered either by the book delivery on the records of CDS of Securities held in the Depository Service or by the physical delivery of Security Certificates (if the Trade is to be Settled using the Certificate Based Settlement method).</p> <p>(f) If the Trade is reported with a TPCS Mode of Settlement, and the Third Party Clearing System has netted the Trade prior to the position's having been reported to CDS, the Trade representing the netted position will Settle on a Trade-for-Trade basis between the Participant and the Third Party Clearing System.</p> <p>(g) There are four Settlement processes: the Intraday Continuous Net Settlement Process, the Real Time TFT Settlement Process the Combined Batch Net Settlement/Continuous Net Settlement Process and the FINet Real Time Settlement Process.</p>
<p>7.2.6 Mode of Settlement</p> <p>Each Trade must include a mode of settlement indicator that is one of Trade-for-Trade, <u>SNS</u> or CNS. The mode of settlement indicator is either included in the instructions when the Trade is reported or confirmed, or is added automatically by the system in accordance with the criteria in the Procedures and User Guides. <u>The system may only change or modify a Mode of Settlement indicator to Trade-for-Trade or CNS; CDSX may not add a Mode of Settlement indicator of SNS. A Trade identified with a TPCS Mode of Settlement shall not be considered for Settlement within CDSX.</u></p>	<p>7.2.6 Mode of Settlement</p> <p>Each Trade must include a mode of settlement indicator that is one of Trade-for-Trade, SNS or CNS. The mode of settlement indicator is either included in the instructions when the Trade is reported or confirmed, or is added automatically by the system in accordance with the criteria in the Procedures and User Guides. The system may only change or modify a Mode of Settlement indicator to Trade-for-Trade or CNS; CDSX may not add a Mode of Settlement indicator of SNS. A Trade identified with a TPCS Mode of Settlement shall not be considered</p>

Text of CDS Participant Rules marked to reflect proposed amendments	Text CDS Participant Rules reflecting the adoption of proposed amendments
<p><u>7.2.7 Third Party Clearing Systems</u></p> <p><u>(a) Third Party Clearing System status</u></p> <p><u>A TPCS must be a CDS Participant, and must request such status as a TPCS from CDS.</u></p> <p><u>(b) Trade Reporting to a Third Party Clearing System</u></p> <p><u>CDS shall establish those Trades to be reported to a TPCS in accordance with the criteria set out in the Procedures.</u></p> <p><u>(c) Trade-for-Trade Settlement of Trades reported by Third Party Clearing System</u></p> <p><u>Trades reported from a TPCS to CDS shall Settle on a Trade-for-Trade basis in accordance with Rule 7.5.2, with the TPCS as the counterparty to each Trade.</u></p> <p><u>(d) Partial Delivery by Third Party Clearing System</u></p> <p><u>When an outstanding TPCS Obligation is considered for TFT Settlement and the Settlement of the entire TPCS Obligation would not pass the pre-Settlement edit, but a partial Settlement of the TPCS Obligation would pass the pre-Settlement edits, then CDS may modify the original Trade in order to partially Settle that portion of the Trade which would otherwise be eligible for TFT Settlement but for the restriction of Rule 7.5.2(d). Partial Settlement of a TPCS obligation results in the deletion of the original Trade and the creation of two new Trades, one for the amount of the available Securities or Funds, and one for the outstanding remainder. The former Trade will Settle by the delivery of only some of the Securities required and the making of a corresponding partial payment; the latter Trade will remain outstanding, to be reconsidered for Settlement. A pending Trade that constitutes the remainder of a partial Settlement may itself be partially Settled by the same process as defined herein.</u></p> <p>7.5.2 Real Time TFT Process</p> <p>The Real Time TFT Settlement Process:</p> <p>(a) is run throughout the time the system is operating;</p> <p>(b) processes Settlement of pending Trades that have a Trade-for-Trade mode of settlement indicator (including Pledges.);</p> <p>(c) does not novate or net newly reported Trades to create new Central Counterparty Obligations; and</p> <p>(d) Settles a Trade only if the entire Trade can be Settled—<u>except when such Trade is reported by a Third Party Clearing System as described in Rule 7.2.7.</u></p>	<p>for Settlement within CDSX.</p> <p>7.2.7 Third Party Clearing Systems</p> <p>(a) Third Party Clearing System status</p> <p>A TPCS must be a CDS Participant, and must request such status as a TPCS from CDS.</p> <p>(b) Trade Reporting to a Third Party Clearing System</p> <p>CDS shall establish those Trades to be reported to a TPCS in accordance with the criteria set out in the Procedures.</p> <p>(c) Trade-for-Trade Settlement of Trades reported by Third Party Clearing System</p> <p>Trades reported from a TPCS to CDS shall Settle on a Trade-for-Trade basis in accordance with Rule 7.5.2, with the TPCS as the counterparty to each Trade.</p> <p>(d) Partial Delivery by Third Party Clearing System</p> <p>When an outstanding TPCS Obligation is considered for TFT Settlement and the Settlement of the entire TPCS Obligation would not pass the pre-Settlement edit, but a partial Settlement of the TPCS Obligation would pass the pre-Settlement edits, then CDS may modify the original Trade in order to partially Settle that portion of the Trade which would otherwise be eligible for TFT Settlement but for the restriction of Rule 7.5.2(d). Partial Settlement of a TPCS obligation results in the deletion of the original Trade and the creation of two new Trades, one for the amount of the available Securities or Funds, and one for the outstanding remainder. The former Trade will Settle by the delivery of only some of the Securities required and the making of a corresponding partial payment; the latter Trade will remain outstanding, to be reconsidered for Settlement. A pending Trade that constitutes the remainder of a partial Settlement may itself be partially Settled by the same process as defined herein.</p> <p>7.5.2 Real Time TFT Process</p> <p>The Real Time TFT Settlement Process:</p> <p>(a) is run throughout the time the system is operating;</p> <p>(b) processes Settlement of pending Trades that have a Trade-for-Trade mode of settlement indicator (including Pledges.);</p> <p>(c) does not novate or net newly reported Trades to create new Central Counterparty Obligations; and</p> <p>(d) Settles a Trade only if the entire Trade can be Settled except when such Trade is reported by a Third Party Clearing System as described in Rule 7.2.7.</p>

APPENDIX "B"
PROPOSED CDS PROCEDURE CHANGES

CHAPTER 1 INTRODUCTION TO TRADE AND SETTLEMENT
Trade types in CDSX

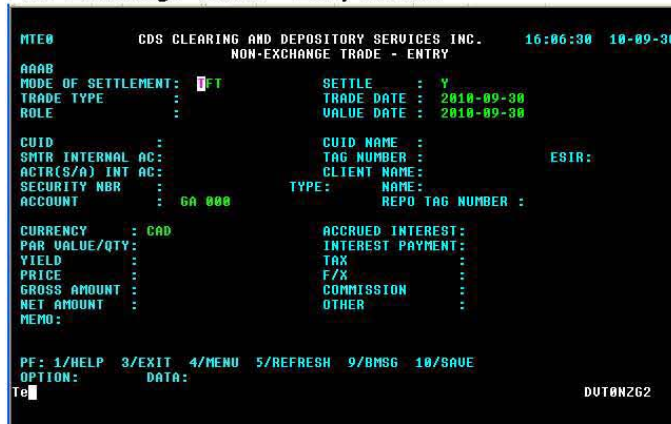
Trade type	Code	Description	Trade class
Crossing cash differences	FX	Counterparties sell the same security to each other but do not have the security to settle causing deletion of the two trades and the movement of the cash difference	Non-exchange
Margin delivered for repurchase and call loans	FM	Mark-to-market payments (cash or collateral) between participants	Non-exchange
NSCC balance order activity	IBO	A trade entered by a participant that is related to NSCC balance orders.	Non-exchange
New issue	NI	New issue allotments	Non-exchange
Principal	P	A trade between two participants who are trading money market instruments for their own accounts	Non-exchange
Purchase resale agreement	PRA	A transaction where one organization buys securities from a dealer with an agreement to resell them at a later date and a previously agreed upon price	Non-exchange
Reclaim trades	RCL	A trade that reclaims funds or securities	Non-exchange
Repurchase agreement	RPA	A transaction where one organization sells securities to another and agrees to repurchase them at a later date (also known as a "repo")	Non-exchange
Special purchase agreement	SPR	A form of financing provided to selected Canadian investment dealers where the Bank of Canada buys Government of Canada securities from a dealer with an agreement to resell them the next business day at a price set at the Bank's discretion	Non-exchange
Special repurchase agreement	SRA	A form of financing provided to selected Canadian investment dealers where the Bank of Canada sells a security to a dealer at a previously agreed upon price	Non-exchange
<u>U.S. repo trade</u>	<u>USR</u>	<u>A trade entered by a participant that identifies a U.S. style repo transaction</u>	<u>Non-exchange</u>
Direct participant trade	DP	A trade between two participants who are trading securities for their own accounts	Exchange or non-exchange
Correction	X	A correcting transaction that either creates a new trade or modifies an existing trade	Exchange or non-exchange
Buy-in adjustment	BIA	An adjustment to wash out a buy-in execution	Exchange
Marriage breakdown	MB	A trade that needs to be reported separately for tax reporting purposes as a result of a marriage breakdown	Non-exchange

4.5 Entering non-exchange trades

To report non-exchange trades in CDSX:

1. Access the Trade Menu on page 10. For more information, see [Accessing the Trade Menu](#) on page 10.
2. Type the number identifying Enter Non-Exchange Trade in the SELECTION field and press ENTER. The Non-Exchange Trade – Entry screen on page 34 displays.

Non-Exchange Trade – Entry screen



3. Complete the fields as indicated in the table below.

Field	Description
MODE OF SETTLEMENT	CNS – Continuous net settlement TFT – Trade-for-trade settlement SNS – SOLA netting system (trade is targeted to be novated by CDCC, and if eligible, trade is then targeted to be netted) For more information on trades with SNS mode of settlement, see CDCC trade processing on page 116. Note: Certificate-based settlement (CBS) cannot be entered by a participant
SETTLE	N to delay settlement of the trade
TRADE TYPE	Trade type (see Trade types in CDSX on page 11)
TRADE DATE	Date when the trade was negotiated
ROLE	Participant's role in the trade (B for buyer, S for seller)
VALUE DATE	Date when the trade is to settle (cannot be more than 365 days in the future)

Field	Description
CUID or CUID NAME	The CUID in the CUID field and the company name in the CUID NAME field of the party who will accept the trade If the trade type is C (client) or A (agency), leave the CUID fields blank and complete the ESIR NO field
SMTR INTERNAL AC	Account number used by the participant's internal systems
TAG NUMBER	Transaction reference number
REPO TAG NUMBER	<u>(Phase 1) Required transaction reference number used for repo trades with SNS mode of settlement. This number links the near and far legs of a repo transaction being targeted to novate/net at CDCC</u> <u>(Phase 2) Required transaction reference number used for repo trades with SNS mode of settlement. This number links the near and far legs of a repo transaction being targeted to novate/net at CDCC</u> For non-repo (cash) transactions, leave this field blank For repo trades with a mode of settlement other than SNS, this number is optional.
ESIR NO	An ESIR number if the trade type is C (client) or A (agency). When the information is validated, the CUID, ACTR (S/A) INT AC and CLIENT NAME fields are populated from the ESIR database For all other trade types, leave this field blank
ACTR (S/A) INT AC	Acceptor's internal account number if the trade type is C (client) or A (agency) If an ESIR number is entered in the ESIR NO field, leave this field blank
CLIENT NAME	Name of the client on whose behalf the transaction is made
SECURITY NBR	Security number (ISIN) identifying the security
ACCOUNT	Account number and type from or to which securities will be settled. The account type may be GA (general account), RA (RSP account) or SA (segregated account) CDSX automatically assigns the default settlement account. To change the default settlement account for all future trades, see <u>Default and alternate settlement accounts</u> on page 16
CURRENCY	CAD – Canadian dollar USD – U.S. dollar
PAR VALUE/QTY	Par value or quantity of the security being traded. Must not be zero
PRICE	For debt issues, the price per 100 par value of the security for this trade For equity issues, the price is a per share amount
GROSS AMOUNT	For debt issues, the gross amount is calculated as follows: Gross amount = Par value x Price/100 For equity issues, the gross amount is calculated as follows: Gross amount = Quantity x Price

CHAPTER 4 NON-EXCHANGE TRADES
Inquiring on non-exchange trades

4. Press ENTER. CDSX validates the information and calculates the values for GROSS AMOUNT and NET AMOUNT.
5. Press PF10 to save. The trade is saved with an unconfirmed status and a new Non-Exchange Trade – Entry screen on page 34 displays with the trade ID on the message line.

4.6 Inquiring on non-exchange trades

Participants can review the details and status of non-exchange trades using the Inquire Non-Exchange Trade function or on the following reports:

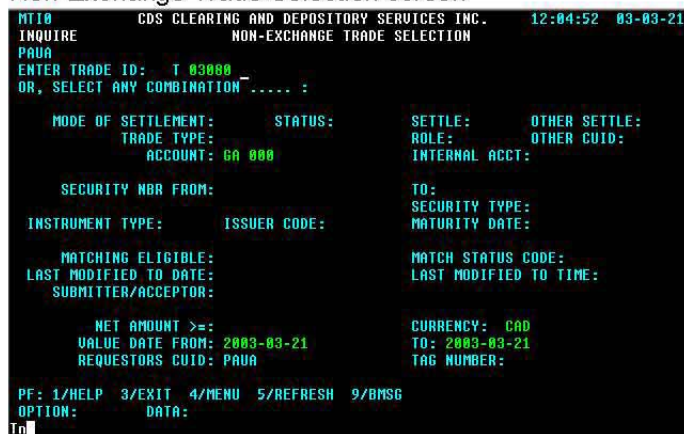
- Unsettled Non-Exchange Trade Report – Post-BNS
- Unsettled Non-Exchange Trade Report – Pre-BNS
- ESIR Bypass Rejection report.

For more information, refer to *CDS Reporting Procedures*.

To inquire on non-exchange trades in CDSX:

1. Access the Trade Menu on page 10. For more information, see [Accessing the Trade Menu](#) on page 10.
2. Type the number identifying Inquire Non-Exchange Trade in the SELECTION field and press ENTER. The Non-Exchange Trade Selection screen on page 36 displays.

Non-Exchange Trade Selection screen



3. Do one of the following:
 - If the trade ID is known, complete the ENTER TRADE ID field and press ENTER. The Non-Exchange Trade - Detail screen on page 37 displays. Go to step 5.

CHAPTER 4 NON-EXCHANGE TRADES
Modifying non-exchange trades

- If the trade ID is not known, enter any of the selection criteria to display a list of trades and press ENTER. The Non-Exchange Trade List screen on page 37 displays.

Non-Exchange Trade List screen

```

MT11      CDS CLEARING AND DEPOSITORY SERVICES INC.      12:05:06  03-03-21
INQUIRE      NON-EXCHANGE TRADE LIST
PAUA                      FUNDS AVAIL:      275,247,635+ AT 12:05:06
TRADE ID      PAR VALUE CUID SECURITY NBR / NAME      DTH SEL
CUID ROLE     NET AMOUNT CURR ACCOUNT      INTERNAL ACCT SETTLE IC STAT

T03000-61601      1,000.00+ LYDI CA04033A1105 BIG BELL COMPANY LIMITED -
PAUA S          55,000.00+ CAD 0A000                                Y Y Y U

PF: 1/HELP 3/EXIT 4/MENU 5/REFRESH 7/BACK 8/FWD 9/BMSG 10/SAVE
OPTION:      DATA:
Te
    
```

4. Type X in the SEL column beside the required trade and press ENTER. The Non-Exchange Trade - Detail screen on page 37 displays.

Non-Exchange Trade - Detail screen

```

MT12      CDS CLEARING AND DEPOSITORY SERVICES INC.      16:21:10  10-09-30
INQUIRE      NON-EXCHANGE TRADE - DETAIL
AARB
TRADE ID      : T10300-64500 STATUS: C      SETTLE: Y OTHER SETTLE: Y
TRADE TYPE: DP  ROLE : S CUID : AARB      TRADE DATE: 2010-09-30
MODE OF SETTLEMENT : TFT      VALUE DATE: 2010-10-04
MATCH STATUS CODE : NM LAST MODIFIED DATE : 2010-10-29 TIME: 15.07.52
OTHER CUID    : AARB      CUID NAME : AAA COMPANY UNIT C
SMTR INTERNAL AC:      TAG NUMBER :      ESIR:
ACTR(S/A )INT AC:      CLIENT NAME :
SECURITY NBR  : CA1350078H06 TYPE: D NAME : GOUT CDA 00 CAD 110601S 0.500
ACCOUNT : GA 000      REPO TAG NUMBER :

CURRENCY      : CAD
PAR VALUE/QTY:      100,000.00+ ACCRUED INTEREST:
YIELD         :      TAX
PRICE        : 101.500000000 F/X
GROSS AMOUNT : 101,500.00+ COMMISSION
NET AMOUNT   : 101,500.00+ OTHER

MEMO:

PF: 1/HELP 3/EXIT 4/MENU 5/REFRESH 9/BMSG 10/SAVE
OPTION:      DATA:
Te                                DUT0N2G2
    
```

5. Review the details of the exchange trade.

4.7 Modifying non-exchange trades

Once a non-exchange trade is entered in CDSX, the acceptor and submitter can perform the activities indicated in the table below using the Modify Non-Exchange Trade function.

For information on FINet trade modifications, see FINet on page 43. [For information on trades with SNS mode of settlement, see CDCC trade processing on page 116.](#)

Activities	Conditions on modifying non-exchange trades in CDSX
Changing trade details	<p>The submitter can change the financial details of a trade only if the acceptor DK's the trade to indicate that they do not recognize or do not agree with the trade details</p> <p>The submitter can change the status of a trade from DK to U (unconfirmed) without changing the trade details</p> <p>Either the submitter or the acceptor can change the settlement control indicator (the SETTLE field), settlement account and the tag number at any time prior to settlement</p>
Deleting trades	<p>The submitter can delete an unsettled trade regardless of its status. No special rules apply to the deletion of trades during or after payment exchange. Once deleted, the trade cannot be changed or reinstated</p> <p>The submitter can delete one trade, or participants can display a list and delete several trades, one after the other</p>
DK'ing trades	<p>If the acceptor disagrees with trade details, they DK (don't know) the trade instead of confirming it. The submitters can change the details. The acceptors then confirm or DK the new details</p> <p>Only the acceptor can DK a trade, however, the acceptor can change the status of a trade from DK to C (confirmed) if circumstances warrant the change (excluding FINet trades)</p> <p>There is no limit to the number of times a trade can be DK'd and corrected</p>
Renewing and confirming trades	<p>The conditions and rules for renewing and confirming trades are discussed in Renewing and confirming trades during and after payment exchange on page 41</p>

To modify a non-exchange trade in CDSX:

1. Access the Trade Menu on page 10. For more information, see [Accessing the Trade Menu](#) on page 10.
2. Type the number identifying Modify Non-Exchange Trade in the SELECTION field and press ENTER. The Non-Exchange Trade Selection screen on page 39 displays.

Non-Exchange Trade Selection screen

```

NT10      CDS CLEARING AND DEPOSITORY SERVICES INC. 12:04:52 03-03-21
INQUIRE  NON-EXCHANGE TRADE SELECTION
PAUA
ENTER TRADE ID: T 03000
OR, SELECT ANY COMBINATION ..... :

MODE OF SETTLEMENT: STATUS: SETTLE: OTHER SETTLE:
TRADE TYPE:          ROLE:   OTHER CUID:
ACCOUNT: GA 000      INTERNAL ACCT:

SECURITY NBR FROM:  TO:
INSTRUMENT TYPE:    ISSUER CODE: SECURITY TYPE:
Maturity DATE:      Maturity DATE:

MATCHING ELIGIBLE:  MATCH STATUS CODE:
LAST MODIFIED TO DATE: LAST MODIFIED TO TIME:
SUBMITTER/ACCEPTOR:

NET AMOUNT >=:     CURRENCY: CAD
VALUE DATE FROM: 2003-03-21 TO: 2003-03-21
REQUESTORS CUID: PAUA TAG NUMBER:

PF: 1/HELP 3/EXIT 4/MENU 5/REFRESH 9/BMSG
OPTION: DATA:
    
```

3. Do one of the following:

- If the trade ID is known, complete the ENTER TRADE ID field and press ENTER. The Non-Exchange Trade – Detail screen on page 40 displays. Go to step 5.
- If the trade ID is not known, enter any of the selection criteria to display a list of trades and press ENTER. The Non-Exchange Trade List screen on page 39 displays.

Non-Exchange Trade List screen

```

NTM1      CDS CLEARING AND DEPOSITORY SERVICES INC. 12:03:56 03-03-21
MODIFY    NON-EXCHANGE TRADE LIST
PAUA
FUNDS AVAIL: 275,247,635+ AT 12:03:56
TRADE ID   PAR VALUE CUID SECURITY NBR / NAME OTH SEL
CUID ROLE  NET AMOUNT CURR ACCOUNT INTERNAL ACCT SETTLE IC STAT

T03000-61601 1,000.00+ LYDI CA04033A1185 BIG BELL COMPANY LIMITED -
PAUA S      55,000.00+ CAD GA000 Y Y Y U

PF: 1/HELP 3/EXIT 4/MENU 5/REFRESH 7/BACK 8/FWD 9/BMSG 10/SAVE
OPTION: DATA:
    
```


CHAPTER 4 NON-EXCHANGE TRADES
Modifying non-exchange trades

4. Modify the Non-Exchange Trade List screen on page 39 as indicated in the table below.

To . . .	Description
DK, delete or confirm a trade	Change the STAT field (DK to don't know, D to delete or C to confirm) next to one or more trades, press ENTER to validate the changes, and press PF10 to save
Modify the settlement control indicator	Change the SETTLE field next to one or more trades, press ENTER to validate the changes, and press PF10 to save
Display or modify more detailed information about one of the trades	Type X in the SEL column and press ENTER to display the Non-Exchange Trade - Detail screen

Non-Exchange Trade – Detail screen

```

NTM2      CDS CLEARING AND DEPOSITORY SERVICES INC.      16:19:59  10-09-30
MODIFY      NON-EXCHANGE TRADE - DETAIL
AABB
TRADE ID   : T10300-64500 STATUS: 0      SETTLE: Y OTHER SETTLE: Y
TRADE TYPE: DP  ROLE : S CUID : AABB      TRADE DATE: 2010-09-30
MODE OF SETTLEMENT : TFT                  VALUE DATE: 2010-10-04
MATCH STATUS CODE : NM LAST MODIFIED DATE : 2010-10-29 TIME: 15.07.52
OTHER CUID   : AAAC      CUID NAME : AAA COMPANY UNIT C
SMTR INTERNAL AC:      TAG NUMBER :      ESIR:
ACTR(S/A )INT AC:      CLIENT NAME:
SECURITY NBR  : CA135087SH06 TYPE: D NAME : GOUT CDA 00 CAD 110601S 0.500
ACCOUNT : GA 000      REPO TAG NUMBER :
CURRENCY : CAD
PAR VALUE/QT: 100,000.00+ ACCRUED INTEREST:
YIELD :      INTEREST PAYMENT:
PRICE : 101.500000000 F/X :
GROSS AMOUNT : 101,500.00+ COMMISSION :
NET AMOUNT : 101,500.00+ OTHER :
MEMO:
PF: 1/HELP 3/EXIT 4/MENU 5/REFRESH 9/BMSG 10/SAVE
OPTION: DATA:
Te      DUT0NZG2
    
```

5. Modify the Non-Exchange Trade – Detail screen on page 40 as indicated in the table below.

To . . .	Description
DK, delete or confirm a trade	Change the STAT field to DK (don't know), D (delete) or C (confirm)
Modify the settlement control indicator	Change the SETTLE field
Renew a trade	Type Y in the RENEW field
Modify trade details	Change the trade details as needed

6. Press ENTER to validate the information and press PF10 to save.

CHAPTER 11 **CDCC trade processing**

CDSX provides a gateway for participants using CDCC's fixed income netting product, SOLA. Through CDSX, SOLA users can submit, modify and confirm non-exchange repo and cash trades.

Participants clearing trades through SOLA must complete the CDS – Online Services Support – Service Eligibility Details Unit Functions (CDSX799) form.

Participants negotiating trades through an inter-dealer broker (IDB) must also complete the following forms and submit them to CDS Customer Service:

- Appointment and Authorization of Third Party Trade Reporting (CDSX858)
- Request for Third Party Trade Reporting and Service Set Up (CDSX857).

11.1 Entering trades

Trades are entered using the SNS mode of settlement either online, through batch trade entry or through InterLink messaging. For more information, see Methods of reporting and managing non-exchange trades on page 33. For repo trades, the participant must enter both the near and far legs of the trade.

To be eligible to be sent to CDCC for novation and netting, the following criteria must be met:

- Both parties must be eligible for novation and netting at CDCC
- Both settlement control indicators must equal Y
- Mode of settlement must equal SNS
- Must contain a repo tag number (Phase 1)
- ISIN must be eligible for CDCC novation and netting (Phase 2).

If all of these criteria are met, CDSX locks the trades and delivers them to CDCC. If trades are accepted by CDCC, CDCC instructs CDS to delete the trades. If a participant enters a trade with a mode of settlement equal to SNS and either the participant (Phase 1 and 2) and/or the security (Phase 2) are not eligible to novate and net at CDCC, the mode of settlement is automatically changed to TFT by CDSX.

11.1.1 Trades negotiated by Inter-dealer brokers (IDB)

Cash and repo trades negotiated by an IDB are entered using the following processes:

- Participants whose trades have been negotiated by an IDB, must enter both the buy and sell trades (for repo trades both the near and far legs) against the IDB's clearing bank. The trades must be targeted to novate and net at CDCC. The IDB's clearing bank confirms the trades.
- IDBs can report the buyer's and seller's trades directly to CDS (for repo trades both the near and far legs should be reported). The trades are reported in a confirmed status and are set up against CDCW.

11.2 SOLA zero net

The SOLA zero net process is a real-time process that nets cash trades to zero and delivers those trades to CDCC for subsequent processing.

To be eligible for the SOLA zero net process, the following criteria must be met:

- At least one participant on the trade is SOLA zero net eligible
- The trade must be a cash trade (i.e., no repo tag number)
- The trade must be in a confirmed (C) status
- Both settlement control indicators must equal Y
- ISIN is eligible for novation and netting (Phase 2).

Once a match is found, CDSX locks the trades and delivers them to CDCC.

11.3 Modifying trades with an SNS mode of settlement

If trades are rejected by CDCC, CDCC instructs CDS to DK the trade.

If participants want trades to be reconsidered for novation and netting, participants update and reconfirm the trade either online, through batch trade entry or through InterLink messaging.

11.4 CDCC net positions and trades for settlement

Each day, CDCC instructs CDS to delete all existing netted positions in CDSX. CDCC then sends new trades with either a DK status for future dated net positions or a confirmed status for current value dated trades.

Current dated trades delivered for settlement by CDCC are considered for settlement in BNS or real-time TFT consistent with current settlement processes.

Trades delivered by CDCC are also considered for settlement by a partial settlement process (Phase 2).

Settlement process

Note: During phase one, only full trade-for-trade (TFT) settlement is available. Phase two introduces partial TFT settlement.

On value date, provided that all settlement criteria are satisfied (i.e., sufficient security position, funds and ACV are available), the real-time settlement process uses the following steps to settle a trade that has reached its value date:

5. Full settlement (i.e., the whole par value has been delivered/received) is attempted.
6. If full settlement is not possible (i.e., the receiving participant has insufficient funds/ACV or the delivering participant has an insufficient quantity available to deliver or ACV), partial settlement is attempted.
7. If partial settlement is possible, the following takes place:
 - d. The trade that could not settle fully is deleted.
 - e. Two new trades are created, one in settled (S) status for funds, quantity or ACV available for settlement. A second trade with the remaining quantity is created in a confirmed (C) status and is subsequently retried for settlement.

The partial settlement process settles outstanding trades at the minimum par value threshold (\$10 million).

8.7 Trade processing and entitlements

The handling of outstanding trades involving securities subject to an entitlement or corporate event depends on the type of event being processed. The following general rules apply to the trade processing of events:

- Claims are created and settled on outstanding trades for distribution events. Trades with a trade type of account transfer (AT) are excluded from claims processing.
- Unsettled trades are converted to corresponding trades in the new security for mandatory events.
- CNS positions are allotted for all voluntary event types but trade conversions or claims are not processed.
- Additional trades and CNS positions are created for stock split events of unsettled trades.
- Trades with mode of settlement equal to SNS are not considered for entitlement processing.

For more information, see [Claims processing](#) on page 165 and [Entitlements for trade conversions](#) on page 167.

8.7.1 Claims processing

CDS processes claims for distribution event types for outstanding TFT trades and CNS positions based on the close-of-business results on specific trade capture dates. Claim transactions generated for outstanding TFT trades and CNS positions are identified on reports, InterLink messages and files using a transaction subtype equal to CLMS.

The table below indicates the details of the trade capture and claim processing dates by event type.

Event code	Event name	Type of CNS and TFT trade	Trade capture date	Claim processing date
DIV	Cash dividend	Canadian and U.S.	Record date	Payable date
DSC	Stock dividend (Canadian listed)	Canadian	Record date	Payable date
DSU	Stock dividend (U.S. listed)	U.S.	Due bill redemption date	Payable date
DSI	Stock dividend (interlisted)	Canadian	Record date	Payable date
		U.S.	Due bill redemption date	Due bill redemption date+1
DWO	Dividend with option	Canadian and U.S.	Record date	Payable date

- Old and new role (e.g., custodian, paying agent, transfer agent, principal agent).
2. CDS works with the old and the new participants to determine the specific details of the merge.
 3. CDS helps participants fill out the necessary participant profile documentation.
 4. Once all details are finalized, CDS notifies all CDS participants of the impending merge.

Special processing for participant merges

FINet trades [and trades with an SNS mode of settlement](#) are not included in the participant merge process.

If the old participant subscribes to any international service, the effective date of the merge is dependent on CDS's ability to coordinate the transition with CDS's foreign partners (e.g., DTCC).

If the new participant needs to take over services (e.g., CNS or FINet) from the old participant, the effective date of the merge is dependent on CDS's ability to secure the necessary collateral, subject to the CDSX risk model requirements.

9.2 Updating participant profiles

Participants use the following steps to update their participant profiles.

1. One or more forms belonging to the following groups of forms must be completed.
 - Company profile forms (e.g., Company Profile form (CDSX023), Unit Profile form (CDSX028))
 - Service profile forms (e.g., Ledger Profile form (CDSX027))
 - InterLink service forms.
2. Based on the details agreed to in the completed forms, CDS updates the following participant profiles:
 - Agent and agent relationship details in SMF
 - Money market issuer details in SMF, if applicable
 - Active events with appropriate agent details.
3. New participants are required to review their profile in CDSX and confirm with their customer representative that their profiles are set up as requested. For more information, see [Reviewing CDS profiles](#) on page 68.