

NOTICE OF EFFECTIVE DATE – TECHNICAL AMENDMENTS TO CDS PROCEDURES
SEGREGATION OF CDSX FUNCTIONS

A. DESCRIPTION OF THE PROPOSED CDS PROCEDURE AMENDMENT

As part of the money market remediation project, CDS amended its Rules and Procedures to clarify the roles and responsibilities of an entity issuing money market securities. These amendments came into effect on April 5, 2010. At the time, CDS concluded that the same Rules and Procedures apply to a non-money market securities issuing agent. Under CDS's Rules there are clear definitions for the roles that a Participant can perform when acting as an issuing agent, including specific qualification criteria for each of the roles. The roles that participants may undertake are: ISIN Activator, Security Validator/Custodian and Entitlement Processor.

A Participant, as an issuing agent of money market securities, must assume the roles of ISIN Activator and Security Validator/Custodian, and may act, optionally, as the Entitlement Processor. As a non-money-market securities issuing agent, a Participant may assume one or more of these roles, but may not assume the ISIN Activator role; this remains a CDS activity. In performing the Security Validator role, a Participant confirms all deposit and withdrawal requests in CDSX and must reconcile the issuer's register with CDS's records.

All Participants must submit an application if they want to perform any of the roles of ISIN Activator, Security Validator or Entitlement Processor.

CDS implemented system controls which ensure that Participants, as money market issuing agents, comply with applicable Procedures and Rules. However, while CDS implemented a new set of parallel procedures for non-money market securities, the system controls for non-money market issuing agents were not contemplated as part of that initiative. The proposed modifications to CDSX implement the aforementioned system controls.

A single technical amendment to existing procedures is being made in the ordinary course of review of CDS's Participant Procedures which identifies:

- The CDSX screen capture reflecting the modification of an existing field on the CDS company profile to identify participants acting as issuing agents for non-money market debt securities.
- **INDICATOR (IND) field** on the Support – Company Details (MSI1) screen is renamed **MM/NON-MM ELIGIBILITY**. The field identifies whether the company is eligible to issue money market securities, non-money market debt securities, both or neither.
 - The following values are applicable in this field:
 - Y – The company is eligible to issue money market securities
 - N – The company is eligible to issue non-money market debt securities
 - B – The company is eligible to issue money market and non-money market debt securities
 - Blank – The company is not eligible to issue either money market or non-money market debt securities

CDS intends to implement the technical amendment to the Procedures on August 9, 2014, subject to regulatory non-disapproval. To ensure that applicable controls are in place for non-money market issuing agent to comply with the Rules and Procedures the following system upgrades will be implemented.

System Changes:

- The addition of an edit to the CDSX deposit confirmation function verifying that:
 - The user ID confirming a deposit of a non-money market debt security (security validator) is not the same as the user ID entering the deposit
 - The validator CUID user ID is not the Security Access Administrator (SAA)
- The addition of an edit to the CDSX deposit entry function verifying that, if the requestor and the validator CUIDs belong to the same company:
 - The company is flagged as non-money market eligible on the company profile, and
 - The requestor CUID user ID is not the Security Access Administrator (SAA)
- The addition of an edit to the CDSX custodian reconciliation maintenance function verifying that:
 - The user ID updating the position of a non-money market debt security is not the same as the validator of any deposit of that security, and
 - The user ID is not the Security Access Administrator (SAA)

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's membership includes representatives from the CDS participant community and it meets on a monthly basis.

These amendments were reviewed and approved by the SDRC on June 26, 2014.

The proposed procedure amendments are available for review and download on the User Documentation page on the CDS website at www.cds.ca/cdsclearinghome.nsf/Pages/-EN-UserDocumentation?Open.

B. REASONS FOR TECHNICAL CLASSIFICATION

The amendment proposed in this Notice is considered technical in nature, and are required to ensure consistency or compliance with an existing rule, securities legislation or other regulatory requirement.

C. EFFECTIVE DATE OF THE CDS PROCEDURE AMENDMENTS

CDS is recognized as a clearing agency by the Ontario Securities Commission pursuant to Section 21.2 of the Ontario *Securities Act*, and by the British Columbia Securities Commission pursuant to Section 24(d) of the British Columbia *Securities Act*, and as a clearing house by the *Autorité des marchés financiers* pursuant to Section 169 of the Quebec *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*.

CDS has determined that these amendments, subject to regulatory non-disapproval, will become effective on August 11, 2014.

D. QUESTIONS

Questions regarding this notice may be directed to:

Hyder Ally
Senior Product Manager, Operations Support

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

Telephone: 416-365-8720
Email: hally@cds.ca