

13.3.2 CDS – Notice and Request for Comments – Material Amendments to CDS Procedures Relating to Enhancements to the ATON Mutual Fund Transfer Requests Process

CDS CLEARING AND DEPOSITORY SERVICES INC. (CDS®)

MATERIAL AMENDMENTS TO CDS PROCEDURES

ENHANCEMENTS TO ATON MUTUAL FUND TRANSFER REQUESTS PROCESS

REQUEST FOR COMMENTS

A. DESCRIPTION OF THE PROPOSED CDS PROCEDURE AMENDMENTS

CDS participants use the ATON™ (Account Transfer Online Notification) service to exchange and confirm client account information, and electronically transfer client accounts from one participant to another. For each confirmed account asset, ATON initiates one of three transfer processes: (i) settlement of CDSX-eligible securities in CDSX®, (ii) instruction delivery to The Depository Trust Company (DTC) for settlement of DTC-eligible securities, or (iii) order delivery to FundSERV for mutual funds transfer requests. The proposed amendments to CDS participant procedures will extend the functionality of ATON's mutual fund transfer request service to include the transfer of funds from one client account to another (across participants) in the event of marriage breakdown. This proposed change is made at the request of the Debt and Equity Subcommittee of the Strategic Development Review Committee (SDRC).

Current ATON Service Overview

ATON users include broker-dealers and other regulated financial firms such as banks, trust companies, intermediaries, investment fund dealers, insurance companies and credit unions. ATON automates the exchange and confirmation of requests for transfer (RFTs) and asset list details between the deliverer and receiver of account transfers. Requests are entered through an online terminal, or through an electronic messaging interface.

Upon confirmation by the receiver, transaction details are provided to CDS, DTC and/or FundSERV for processing within their systems.

Participants can record assets that are not eligible for settlement through any of the three organizations as over-the-counter (OTC) on the same RFT, ensuring that the account details remain tied together.

Eligible Assets and Accounts

ATON transfers information and facilitates the automated exchange of cash and securities including:

- Debt (e.g. Government of Canada marketable bonds and T-bills, provincial and municipal bonds, corporate and strip bonds)
- Equity (e.g. shares, rights, warrants)
- Money market instruments (e.g. bankers' acceptance, commercial paper)
- Mutual funds
- DTC eligible securities

ATON provides the ability to transfer assets in a variety of account types including cash accounts, margin accounts and locked-in and registered plans.

How ATON Works

When a client decides to move their account to a new institution:

1. The receiver of the new account sends instructions (RFT) through ATON to the deliverer who is relinquishing the account.
2. The deliverer returns the RFT listing the client assets (asset list) that will be transferred.
3. The receiver confirms the RFT or disputes the assets identified.

4. Once all assets have been confirmed, items eligible to be transferred through ATON to clearing and settlement institutions (cash and securities through CDSX or DTC, and investment funds through FundSERV) are settled.
5. The transfer of items not eligible to be settled through ATON takes place through arrangements made outside of the service (as OTC items).

Proposed Amendments

Account transfers that are initiated due to the breakdown of a marriage are currently processed manually outside of CDS and ATON. In order to bring this type of activity into ATON, FundSERV and the mutual fund companies require that ATON transfer requests provide additional information related to the set-up or verification of client accounts. In 2011, members of the FAS Account Transfers Working Group¹ worked with members of CDS and FundSERV to determine what changes would be required to ATON to meet client account set-up/verification requirements for the transfer of funds in the event of marriage breakdown. The FAS Account Transfers Working Group proposed changes to the SDRC Debt and Equity Subcommittee who in turn requested that CDS complete the analysis and development for this enhancement. The amendment requires that new recipient client account set-up information such as name, address and tax jurisdiction details are provided to FundSERV for each mutual fund asset transfer request associated with a marriage breakdown.

Although ATON currently provides fields to collect name and address information, there has been no prior need to share this data with FundSERV, and the fields are not structured to meet FundSERV's requirements. As a result, the current six free-form and non-validated name and address fields will be replaced with seven structured fixed-length fields matching FundSERV's specifications. In addition, a new field will be added to capture required information related to tax jurisdiction. These changes will be reflected on ATON screens for online terminal access, as well as in ATON electronic message interfaces.

Upon receipt of the RFT from CDS, FundSERV will pass the request on to the mutual fund company. Using this detail, the mutual fund company will determine if the recipient client account exists or if a new account is required. The movement of the security to the recipient account will then be completed.

In addition to the changes described above, this amendment includes a housekeeping item regarding removing references to ATON Batch Files in CDS documentation. This service, a batch reporting option, was discontinued in 2009.

B. NATURE AND PURPOSE OF THE PROPOSED CDS PROCEDURE AMENDMENTS

The proposed procedure amendments support the financial industry's objective of straight-through electronic processing of securities transactions. CDS participants will benefit from automation of the current manual process for account transfers that are initiated due to the breakdown of a marriage because of:

- a reduction in the length of time needed to complete an account transfer (from up to 25 business days to 10 business days)
- a reduction in cost due to significantly lower fees for electronic instruction delivery versus paper delivery - effort spent monitoring these types of transfers will also be reduced due to a shortened cycle
- a reduction of risk due to fewer manual errors, lost or misplaced client documentation, and ensuing privacy issues
- increased efficiency for CRA Tax Reporting
- improved ability to comply with Investment Industry Regulatory Organization of Canada's (IIROC) Account Transfers Rule 2300, which states that wherever possible account transfers should be carried out using a clearing organization or depository and transmitted by electronic delivery through the account transfer facility of CDS (i.e. ATON)

C. IMPACT OF THE PROPOSED CDS PROCEDURE AMENDMENTS

This ATON enhancement will allow CDS participants to securely and efficiently transfer mutual funds from one participant to another for mutual fund account transfer requests due to a marriage breakdown.

¹ The FAS (Financial Administration Section) Account Transfers Working Group is a sub-committee of the Investment Industry Regulatory Organization of Canada (IIROC). The committee is comprised of CDS participants (ATON subscribers) and their service providers.

C.1 Competition

The proposed procedure amendments apply to all CDS participants who currently use, or may choose to use, the ATON service. Consequently, no CDS participant will be disadvantaged with the introduction of these enhancements.

C.2 Risks and Compliance Costs

The development of the service enhancement was undertaken at the request of CDS participants, and is intended to reduce both the risk and costs associated with account transfer activities. There are no compliance costs or issues for participants vis-à-vis CDS with regard to the new service.

The movement of the CDSX-eligible securities in CDSX must pass all of the risk model edits and does not bring any incremental risks to CDS.

CDS Risk Management has determined that the proposed amendments will not change the risk profile of CDS or its 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

As stated in Principle #17 (Operational risk) of the new international standards for payment, clearing and settlement systems set out in the CPSS/IOSCO report Principles for Financial Market Infrastructures², a financial market infrastructure such as CDS “should identify all plausible sources of operational risk, both internal and external, and minimise their impact through the deployment of appropriate systems, controls, and procedures”. This ATON development assists in the mitigation of operational risk through the appropriate use of system-generated transfer requests initiated due to a marriage breakdown.

Additionally, the fundamentals stated in Principle #21 (Efficiency and effectiveness) that a financial market infrastructure such as CDS “should be efficient and effective in meeting the requirements of its participants and the markets it serves” will be supported by this development.

No other comparisons to international standards were identified.

D. DESCRIPTION OF THE PROCEDURE DRAFTING PROCESS

D.1 Development Context

The development request was tabled at the SDRC Debt & Equity subcommittee, as an opportunity to reduce risk and cost associated with mutual fund account transfer requests involving marriage breakdown. Once approved by the SDRC for further analysis, CDS developed requirements that were reviewed with members of the FAS Account Transfers Working Group. Their input was incorporated into the final design which was subsequently approved by the SDRC.

D.2 Procedure Drafting Process

The CDS procedure amendments were drafted by CDS’s Business Systems Development and Support group, and subsequently reviewed and approved by the 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 a cross-section of the CDS participant community, and it meets on a monthly basis.

These amendments were reviewed and approved by the SDRC on October 25, 2012.

D.3 Issues Considered

ATON currently provides a surname field and six additional name and address fields allowing participants to share client information when processing an RFT. There are no rules or restrictions associated with the information that participants can enter into the current name and address fields, and there has been no need to pass this information on to FundSERV. With the introduction of account transfers associated with marriage breakdown, ATON must newly provide FundSERV with client name and address information so that the destination fund company can set up an appropriate account. In order to meet the rules and restrictions FundSERV and the fund companies require for this information, ATON’s six current “free style” fields must be replaced by seven new and more structured fields, and the Surname field length must be shortened.

² The report can be found at <http://www.bis.org/pub/cpss101.htm>.

Since previously-created RFTs will exist in ATON when the marriage breakdown changes are implemented, information from the current discontinued name and address fields must be transferred to the new fields. Due to the length and structure differences of the new fields, this transfer of information may not be reported correctly in the new fields (e.g. province information may appear within the new City field). This is expected to have minimal impact as address information will only be passed onto FundSERV for RFTs associated with marriage breakdown, and participants will have the ability to manually correct these. (Currently only one active RFT associated with marriage breakdown exists in ATON.)

Details of the migration plan for managing the transfer of name and address information from current fields to new fields as well as the handling of those RFTs where the information will require correction were reviewed and approved by the FAS Account Transfers Working Group and communicated to all ATON participants in August 2012.

D.4 Consultation

Members of the FAS Account Transfers Working Group, CDS and FundSERV worked together in 2011 to determine what changes would be required to ATON to meet client account set-up/verification requirements for account transfer requests involving marriage breakdown. The FAS Account Transfers Working Group proposed these changes to the SDRC Debt and Equity Subcommittee who provided approval for CDS to complete development of this enhancement.

CDS's Customer Service account managers provide continuous communication and status updates of all proposed changes to their clients, as well as soliciting input on those changes.

CDS facilitates consultation through a variety of means, including regularly scheduled SDRC subcommittee meetings which provide a forum for detailed requirement review, and monthly meetings with service bureaus to discuss development impacts to them. All development initiatives are also presented to IIROC's FAS Operations Subcommittee.

D.5 Alternatives Considered

The proposed initiative offers enhanced straight-through processing of marriage breakdown account transfers with mutual funds. No alternative solution was considered.

D.6 Implementation Plan

The proposed procedure amendments and the implementation date have been communicated regularly to CDS participants through the SDRC and its subcommittees, as well as through CDS's Customer Service relationship meetings. In addition, Customer Service account managers shared the project's business requirements documents with all ATON participants and service providers to ensure they were aware of the changes and the potential need to schedule updates to their systems. A bulletin was published on August 24, 2012 on the CDS Bulletins Service providing notice to this same effect.

The Customer Service account managers will provide their clients with details of the upcoming changes, and provide customer-related training during the month of January 2013. CDS will distribute a bulletin to all CDS participants the week before implementation reminding them of the upcoming changes and confirming the effective date of those changes.

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*. 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 British Columbia 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 Participant Procedures may become effective upon approval of the amendments by the Recognizing Regulators following public notice and comment. Implementation of this initiative is planned for February 9, 2013.

E. TECHNOLOGICAL SYSTEMS CHANGES

E.1 CDS

ATON functionality will be impacted by these changes as follows:

- a) ATON screens and electronic messages:
 - Surname field will be revised from 30-character maximum to 20-character maximum

- Six current name/address fields will be replaced by seven new name/address fields, and a new tax jurisdiction field
- b) FundSERV order file:
- The records will be flagged as marriage breakdown transfer requests, if appropriate
 - For marriage breakdown transfers, the Account Setup section of the records will be populated, and the otherwise normally populated Account Transfer section will be left empty
- c) Reports:
- Reports reflecting the current name/address fields will be updated to reflect the seven new name/address fields, and the new tax jurisdiction field
 - A new Marriage Breakdown Daily Report will be introduced to report transfer requests involving Marriage Breakdown
- d) Migration of name and address information on existing transfers:
- Information from the six discontinued name and address fields will be transferred to the seven new name and address fields
 - Due to the reduced size of the Surname field (from 30-character to 20-character), only the first 20 characters will be transferred to the new field

E.2 CDS Participants

CDS Participants who use electronic messages to process transfer requests may need to update their internal systems to accommodate the new name/address and tax jurisdiction fields and the change to the Surname field.

E.3 Other Market Participants

Service providers will need to update their systems on behalf of their clients for electronic message processing in the same manner as described above for CDS Participants.

F. COMPARISON TO OTHER CLEARING AGENCIES

No comparable or similar procedures were available for other clearing agencies in order to conduct an analysis.

G. PUBLIC INTEREST ASSESSMENT

CDS has determined that the proposed amendments 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, the British Columbia Securities Commission Bulletin or the Autorité des marchés financiers Bulletin to:

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

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

I. PROPOSED CDS PROCEDURE 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).