

13.3.3 Notice of Commission Approval – Material Amendments to CDS Procedures Relating to Change to Recent Period for FINet Loss Allocation

CDS CLEARING AND DEPOSITORY SERVICES INC. (CDS®)

MATERIAL AMENDMENTS TO CDS PROCEDURES

**CHANGE TO RECENT PERIOD
FOR FINET LOSS ALLOCATION**

NOTICE OF COMMISSION APPROVAL

In accordance with the Rule Protocol between the Ontario Securities Commission (“Commission”) and CDS, the Commission approved on 14 October 2011 amendments filed by CDS to its rules relating to Change to Recent Period for FINet Loss Allocation. The amendments will be effective on 24 October 2011. Subsequent non-significant revisions to the amendments were approved by the Commission on 25 October 2011 – these revisions will be effective on 26 October 2011.

Summary of Material Procedure

A copy and description of the amendments were published for comment on September 9, 2011 at (2011) 34 OSCB 9510.

The amendments modify the loss allocation formula for FINet to reduce the maximum number of days in the definition of the “recent period” from 365 calendar days to 30 calendar days.

Summary of Public Comments

None received.

Revisions to the Material Procedure

In consultation with its regulators, CDS has decided to make a non-significant revision to the proposed amendments for clarity purposes. The revision:

- Removes an unnecessary word in the residual loss description
- Clarifies the wording in the denominator of the residual loss calculation

The procedure amendments that were approved by the Commission are provided in Appendix A (the non-significant revision has been marked to indicate the change from the previously published version).

APPENDIX A

PROCEDURES AMENDMENT

Text of CDS Participant Procedures marked to reflect non-significant revisions to the proposed Procedures published for comment on September 9, 2011	Text of CDS Participant Procedures reflecting the adoption of non-significant revisions to the proposed Procedures published for comment on September 9, 2011
<p>18.7 Residual loss allocation for the FINet participant fund</p> <p>If a FINet participant defaults and the realized value of their collateral is not sufficient to cover the resulting losses, the residual loss is allocated to the surviving FINet participants based on each survivor's trading activity with the defaulter.</p> <p>To calculate each survivor's share of the residual loss:</p> <ol style="list-style-type: none"> CDS reviews original trades between the defaulter and the survivors that were netted in FINet during the recent period. <p>The recent period is a maximum of 30 calendar days, prior to the day of default, that it takes to accumulate original trades with a dollar value of five times the dollar value of the defaulting participant's scheduled net deliveries and receives of securities that which were replaced by CDS as part of the close-out process.</p> <p>In the event that five times the outstanding positions could not be achieved in 30 calendar days, the available dollar value of accumulated original trades is used to calculate the loss percentage.</p> <ol style="list-style-type: none"> If no original trades are found during the recent period, the residual loss is allocated based on the active surviving participants' proportionate contribution to the participant fund as a whole. <p>Each survivor's proportionate share of residual loss (P) for FINet, is calculated as follows:</p> $p = \frac{\$ \text{ value of the survivor's original trades with the defaulter during the recent period}}{\text{Total } \$ \text{ value of all the survivor's' original trades with the defaulter during the recent period}}$	<p>18.7 Residual loss allocation for the FINet participant fund</p> <p>If a FINet participant defaults and the realized value of their collateral is not sufficient to cover the resulting losses, the residual loss is allocated to the surviving FINet participants based on each survivor's trading activity with the defaulter.</p> <p>To calculate each survivor's share of the residual loss:</p> <ol style="list-style-type: none"> CDS reviews original trades between the defaulter and the survivors that were netted in FINet during the recent period. <p>The recent period is a maximum of 30 calendar days, prior to the day of default, that it takes to accumulate original trades with a dollar value of five times the dollar value of the defaulting participant's scheduled net deliveries and receives of securities that were replaced by CDS as part of the close-out process.</p> <p>In the event that five times the outstanding positions could not be achieved in 30 calendar days, the available dollar value of accumulated original trades is used to calculate the loss percentage.</p> <ol style="list-style-type: none"> If no original trades are found during the recent period, the residual loss is allocated based on the active surviving participants' proportionate contribution to the participant fund as a whole. <p>Each survivor's proportionate share of residual loss (P) for FINet, is calculated as follows:</p> $p = \frac{\$ \text{ value of the survivor's original trades with the defaulter during the recent period}}{\text{Total } \$ \text{ value of all survivors' original trades with the defaulter during the recent period}}$