

13.1.4 Technical Amendments to CDS Procedures – New Instrument Types for Canada Mortgage Bonds (CMB) and Provincial Savings Bonds (PSB)

CDS CLEARING AND DEPOSITORY SERVICES INC. (CDS®)

TECHNICAL AMENDMENTS TO CDS PROCEDURES

NEW INSTRUMENT TYPES FOR CANADA MORTGAGE BONDS (CMB)
AND PROVINCIAL SAVINGS BONDS (PSB)

NOTICE OF EFFECTIVE DATE

A. DESCRIPTION OF THE CDS PROCEDURE AMENDMENT

Background

Provincial Bonds were made eligible for FINet on June 9, 2009 and Canada Mortgage Bonds were made eligible for FINet on September 15, 2009.

Canada Mortgage Bonds (CMB's) are currently classified under the Other Asset-Backed (OAB) instrument type within CDSX and Provincial Savings Bonds (PSB's) are currently classified under the Provincial Bond (PRV) instrument type within CDSX.

FINet's automated security eligibility function identifies eligible securities based on the following criteria:

- instrument type
- class code – whether or not the security is federally guaranteed
- rating – the credit rating assigned to the issuer of the security

As federally guaranteed OAB securities and provincial bonds (PRV) are currently eligible for FINet, there are some securities within these two categories (e.g. PSBs) that should not be made FINet eligible. As such, the securities that should not be made eligible for FINet, must have their FINet eligibility removed manually.

Creating a new instrument type for CMB's within CDSX will ensure that other types of federally guaranteed OAB securities are not made eligible for FINet and only CMB's are made FINet eligible.

Creating a new instrument type for PSB's within CDSX will ensure that these securities are not made eligible for FINet.

A new instrument type (i.e. CMB) will be added to CDSX specifically for Canada Mortgage Bonds issued by Canada Housing Trust and a new instrument type (i.e. PSB) will be added to CDSX specifically for Provincial Savings Bonds. Adding these two instrument types will avoid having to manually remove the eligibility of PSBs and other federally guaranteed securities from FINet.

Note: Canada Savings Bonds currently have their own instrument type (CSB) within CDSX.

Description of Proposed Amendments

The following amendments are proposed to CDS's external procedures:

- Participating in CDS Services, Chapter 15 Collateral Administration, section 15.1 Acceptable Collateral:
 - Add Canada Mortgage Bonds as an instrument type to the table of acceptable collateral
 - Remove Other asset backed security as an instrument type from the table of acceptable collateral
- Trade and Settlement Procedures, Chapter 5 FINet, section 5.3 Security eligibility:
 - Remove Other Asset-backed - federally guaranteed from the list of eligible instrument types
 - Add Canada Mortgage bonds to the list of eligible instrument types
- CDSX Procedures and User Guide, Chapter 3 Issue Activities, section 3.3.1:
 - Add Canada Mortgage bond (CMB) as an instrument type in the Non-money market securities table for Security type Asset-backed (AB)
 - Add provincial savings bond (PSB) as an instrument type in the Non-money market securities table for Security type market bond (MB)

- Transfer Agent Procedures, Chapter 1 Introduction, section 1.3:
 - Add Canada Mortgage bond (CMB) as an instrument type in the Non-money market securities table for Security type Asset-backed (AB)
 - Add provincial savings bond (PSB) as an instrument type in the Non-money market securities table for Security type market bond (MB)

The CDS Procedures marked for the amendments may be accessed at the CDS website at:

<http://www.cds.ca/cdsclearinghome.nsf/Pages/-EN-blacklined?Open>.

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 September 24, 2009.

B. REASONS FOR TECHNICAL CLASSIFICATION

The amendments proposed pursuant to this Notice are considered technical amendments as they pertain to matters of a technical nature in routine operating procedures and administrative practices relating to the settlement services.

C. EFFECTIVE DATE OF THE CDS PROCEDURE AMENDMENT

Pursuant to Appendix A ("Rule Protocol Regarding The Review And Approval Of CDS Rules By The OSC") of the Recognition and Designation Order, as amended on November 1, 2006, and Annexe A ("Protocole d'examen et d'approbation des Règles de Services de Dépot et de Compensation CDS Inc. par l'Autorité des marchés financiers") of AMF Decision 2006-PDG-0180, made effective on November 1, 2006, CDS has determined that the proposed amendments will become effective on a date subsequently determined by CDS, and as stipulated in the related CDS Bulletin.

D. QUESTIONS

Questions regarding this notice may be directed to:

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