

**13.1.3 Notice and Request for Comment – Material Amendments to CDS Procedures Relating to New Electronic Alert Service (EAS)**

**CDS CLEARING AND DEPOSITORY SERVICES INC. (CDS®)**

**MATERIAL AMENDMENTS TO CDS PROCEDURES**

**NEW ELECTRONIC ALERT SERVICE (EAS)**

**REQUEST FOR COMMENTS**

**A. DESCRIPTION OF THE PROPOSED CDS PROCEDURE AMENDMENTS**

The SDRC Entitlements subcommittee requested that CDS develop and implement a new service for the submission of alerts to Limited Transfer Agents whenever a participant tendered to one of the Agent's voluntary Warrant Subscription corporate actions through the CDSX Entitlement function.

The proposed amendments to the Participating in CDS Services procedures, Depository and Paying Agent Procedures, and the CDS Reporting Procedures will:

- a) describe the new Electronic Alert Service (EAS), an automated notification function that will deliver an email or web-based alert to participants advising them of an activity that has occurred. The first alert offered will be specifically for Limited Transfer Agent participants to assist them in increasing their role as Depository and Paying Agents in CDSX;
- b) identify the type of alerts available, and the manner in which they can be received; and
- c) describe the enhancements made to the Settled Transaction Report.

In addition, the following form will be added:

Web Services Request for CDS Participants form (CDSX843)

**B. NATURE AND PURPOSE OF THE PROPOSED CDS PROCEDURE AMENDMENTS**

The proposed amendments to the Participating in CDS Services procedures are intended to describe the new EAS service by which alerts will be distributed to participants, notifying them of activities occurring across different CDS applications.

The Depository and Paying Agent Procedures proposed amendments are intended to describe how the alerts may be used by Transfer Agents to monitor participant tendering activities to their ongoing corporate action events.

The proposed amendments to the CDS Reporting Procedures are to describe the changes made to the Settled Transactions Report to identify funds movements relating to voluntary corporate actions, such as ongoing warrant subscriptions.

**C. IMPACT OF THE PROPOSED CDS PROCEDURE AMENDMENTS**

The Warrant Subscription event type in CDSX allows participants to enter online requests to tender their warrant position/subscription funds and elect to receive a pre-defined new security in exchange. In many cases, the subscription is ongoing allowing participants to exercise their subscription privilege on a daily basis throughout the life of the security. However, the CDSX functionality is only used by Limited Transfer Agent participants acting as Depository Agents for processing the final expiry of subscribed rights/warrant events. The Depository Agents are unwilling to use the CDSX functionality for events that allow participants to subscribe on a daily basis as they would have to review all of their subscription events each day, prior to the daily expiry time, in order to determine if any participant has entered a tender transaction. This manual process is very time consuming and may result in missed transactions.

As a consequence, participants who wish to exercise warrants on behalf of their clients on a daily basis have to physically withdraw the warrant certificates from CDS, and submit the certificates and a cheque to the Transfer Agent. The Transfer Agent then issues the new physical underlying securities to the participant, who deposits the certificates in CDS. This manual warrant subscription process is both costly and risky.

To address the concerns of the Limited Transfer Agent participants and increase their roles as Depository and Paying Agents in CDSX, the new Electronic Alert Service (EAS) will deliver an automated email or web alert message to the respective Agent whenever a participant enters a tender subscription for one of the Agent's ongoing warrant issues. Upon receipt of the alert, the

Transfer Agent will be made aware that action is required of them to complete the subscription transaction initiated by the tendering participant.

In future, additional alert types will be added to the EAS service, providing participants with information from other CDS functions and services.

The proposed amendments to the Participating in CDS Services procedures, Depositary and Paying Agent Procedures, and the CDS Reporting Procedures describe the EAS service, the type of alerts available, the delivery options available, and the reporting changes made to identify funds movements on voluntary corporate actions, such as ongoing warrant subscriptions.

### **C.1 Competition**

There is expected to be no impact on competition.

### **C.2 Risks and Compliance Costs**

There is expected to be no impact on compliance costs specific to EAS, apart from the costs for using the service. There is expected to be a reduction in risk to those participants who tender to an ongoing warrant subscription event via CDSX, due to the elimination of physical security movements.

### **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**

No such comparison is available in respect of the proposed amendments.

## **D. DESCRIPTION OF THE PROCEDURE DRAFTING PROCESS**

### **D.1 Development Context**

The proposed amendments were developed by CDS Staff to define the new EAS service, and to document the manner in which a Transfer Agent may be alerted of participant tendering activity.

### **D.2 Procedure Drafting Process**

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 25, 2009

### **D.3 Issues Considered**

CDS investigated possible solutions that would achieve the overall objective of providing alerts to Limited Transfer Agent participants so that they would expand their use of the CDSX entitlement function. It was considered beneficial to provide Agents with the choice of receiving alerts via their corporate email address, or through a web-based alert in-box within the CDS website.

### **D.4 Consultation**

The SDRC reviewed and approved the proposed amendments on June 25, 2009, prior to their submission for public comment.

### **D.5 Alternatives Considered**

CDS considered building just a notice that would be sent to Transfer Agents via email. However, the ease of use of an internet based facility was considered the best way to develop the EAS service in order to allow for development of future alert types from other CDS functions. It was also considered appropriate to offer a facility within the web service for users to identify their preferred alert delivery method – email or web inbox – in order to facilitate use of the service by all 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<sup>®</sup>, 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 Participant Procedures may become effective upon approval of the amendments by the Recognizing Regulators following public notice and comment. Implementation is planned for September 14, 2009.

## E. TECHNOLOGICAL SYSTEMS CHANGES

### E.1 CDS

CDS will create a new web based application service on [www.cds.ca](http://www.cds.ca) to provide participants with the ability to subscribe to and view alert messages that will advise them of an activity that has occurred. The first alert offered will be specifically for Limited Transfer Agent participants to assist them in increasing their role as Depository and Paying Agents in CDSX.

### E.2 CDS Participants

Participants will be required to have access to the internet to register for and use the EAS service from [www.cds.ca](http://www.cds.ca). There are no other external development impacts to CDS Participants as a result of the proposed amendments.

### E.3 Other Market Participants

The service is not available to non-participants.

## F. COMPARISON TO OTHER CLEARING AGENCIES

No comparable or similar procedures were available for other clearing agencies.

## 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 to:

Laura Ellick  
Manager, Business Systems  
CDS Clearing and Depository Services Inc.  
85 Richmond Street West  
Toronto, Ontario M5H 2C9

Phone: 416-365-3872  
Fax: 416-365-9625  
Email: [llick@cds.ca](mailto:llick@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<sup>e</sup> Anne-Marie Beaudoin  
Secrétaire de l'Autorité  
Autorité des marchés financiers  
800, square Victoria, 22<sup>e</sup> étage  
C.P. 246, tour de la Bourse  
Montréal (Québec) H4Z 1G3

Manager, Market Regulation  
Capital Markets 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](mailto:marketregulation@osc.gov.on.ca)

Télécopieur: (514) 864-6381

Courrier électronique: [consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

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

#### **I. PROPOSED CDS PROCEDURE AMENDMENTS**

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

**APPENDIX "A"**  
**PROPOSED CDS PROCEDURE AMENDMENTS**

Text of CDS Participant Procedures marked to reflect proposed amendments		Text CDS Participant Procedures reflecting the adoption of proposed amendments	
<b>25.5 Settled Transactions report</b>		<b>25.5 Settled Transactions report</b>	
Report ID	000038B	Report ID	000038B
Available	Daily	Available	Daily
Data currency	Intraday	Data currency	Intraday
Retention period	Two days	Retention period	Two days
Sort order	TRANSACTION ID FOR ENTITLEMENTS - EVENT ID, <u>OPTION NUMBER, TRANSACTION ID</u>	Sort order	TRANSACTION ID FOR ENTITLEMENTS - EVENT ID, OPTION NUMBER, TRANSACTION ID
Aggregation	ACCOUNT TOTAL, NET TOTAL	Aggregation	ACCOUNT TOTAL, NET TOTAL
<p>This report lists transactions that have settled or have otherwise been updated for a given ledger during the current business day. The memo information on funds and security position ledger adjustments is included on the report.</p> <p>The report is generated for both Canadian and U.S. dollar transactions and details the transactions listed in the table below.</p>		<p>This report lists transactions that have settled or have otherwise been updated for a given ledger during the current business day. The memo information on funds and security position ledger adjustments is included on the report.</p> <p>The report is generated for both Canadian and U.S. dollar transactions and details the transactions listed in the table below.</p>	
<b>Transaction code</b>	<b>Transaction</b>	<b>Transaction code</b>	<b>Transaction</b>
A	Deposit or withdrawal adjustment	A	Deposit or withdrawal adjustment
B	Billing	B	Billing
D	Deposit	D	Deposit
E	Entitlement	E	Entitlement
F	Funds transfer	F	Funds transfer
G	Inter-account movement	G	Inter-account movement
J	Ledger adjustment	J	Ledger adjustment
N	CNS settlement, CNS mark-to-market, buy-in mark-to-market transaction and fails-to-receive interest mark	N	CNS settlement, CNS mark-to-market, buy-in mark-to-market transaction and fails-to-receive interest mark
O	Outgoing payment	O	Outgoing payment
P	Pledge	P	Pledge
R	Receipt of payment	R	Receipt of payment
T	Non-exchange trade	T	Non-exchange trade
W	Withdrawal	W	Withdrawal
Y	Exchange trade	Y	Exchange trade
<p>If the TRANSACTION TYPE field on the Settled Transactions Report Selection screen is left blank or populated with an E (entitlement), the</p>		<p>If the TRANSACTION TYPE field on the Settled Transactions Report Selection screen is left blank or populated with an E (entitlement), the</p>	

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<p>information can also be filtered by event type and/or event transaction subtype. <u>If the transaction subtype is OPTN, a fund total per option and a grand total per event will also be displayed.</u> Refer to <i>CDSX Procedures and User Guide</i> for a valid list of event types and the table below for a list of the transaction subtypes.</p>	<p>information can also be filtered by event type and/or event transaction subtype. If the transaction subtype is OPTN, a fund total per option and a grand total per event will also be displayed. Refer to <i>CDSX Procedures and User Guide</i> for a valid list of event types and the table below for a list of the transaction subtypes.</p>																																
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<p><b>3.4 Monitoring tender instructions and positions</b></p> <p>Depositary agents use the following resources to monitor tender instructions and positions:</p> <ul style="list-style-type: none"> <li>• <u>Electronic Alert service (EAS) – Depositary agents can subscribe to receive warrant subscription alerts, notifying them whenever participants submit tenders to ongoing warrant issues. For more information on EAS, refer to Electronic Alert service in <i>Participating in CDS Services</i>.</u></li> <li>• Inquire Option Selection function – To view the</li> </ul>	<p><b>3.4 Monitoring tender instructions and positions</b></p> <p>Depositary agents use the following resources to monitor tender instructions and positions:</p> <ul style="list-style-type: none"> <li>• Electronic Alert service (EAS) – Depositary agents can subscribe to receive warrant subscription alerts, notifying them whenever participants submit tenders to ongoing warrant issues. For more information on EAS, refer to <u>Electronic Alert service</u> in <i>Participating in CDS Services</i>.</li> <li>• Inquire Option Selection function – To view the</li> </ul>																								

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<p>aggregate tenders per option and individual instructions and memos. The instruction is flagged in order to notify depositary agents when a memo is attached.</p> <ul style="list-style-type: none"> <li>• Security Account Position Inquiry function – To inquire on positions in their offer account. For more information, refer to <i>CDSX Procedures and User Guide</i>.</li> <li>• Reports (For more information on these reports, refer to <i>CDS Reporting Procedures</i>.) <ul style="list-style-type: none"> <li>– Tender Breakdown Report – Depositary Agent – Indicates the cumulative tendered position for voluntary events, where participants have to submit instructions to a depositary agent</li> <li>– Rejected Option Selection Instruction Report – Depositary Agent – Indicates all option selection instructions not taken up under an offer</li> <li>– Rights Distribution Eligibility Report – Depositary Agent – Indicates the eligibility of a participant to receive rights using CDS</li> <li>– Subscription Breakdown Report – Depositary Agent – Indicates the total number of warrants and rights exercised, including the number of rights stepped-up, the quantity of additional shares requested and the subscription cost per participant.</li> </ul> </li> </ul> <p><b>3.6 Electronic Alert service</b></p> <p><u>The Electronic Alert service (EAS) distributes alerts to participants, notifying them of activities occurring across different CDS applications. This minimizes the amount of manual effort involved in monitoring activities. Alerts are available in email or web format.</u></p> <p><b>Note:</b> <u>Email alerts are not encrypted so the confidentiality or security of the information is not guaranteed.</u></p> <p><b>Note:</b> <u>Web alerts are automatically deleted as specified on the alert inbox.</u></p> <p><u>To request access to this service, use the IBM Tivoli Identity Manager self-care interface (<a href="http://www.cdsservices.ca/itim/self">www.cdsservices.ca/itim/self</a>).</u></p> <p><u>Users can request the following roles per CUID within EAS:</u></p>	<p>aggregate tenders per option and individual instructions and memos. The instruction is flagged in order to notify depositary agents when a memo is attached.</p> <ul style="list-style-type: none"> <li>• Security Account Position Inquiry function – To inquire on positions in their offer account. For more information, refer to <i>CDSX Procedures and User Guide</i>.</li> <li>• Reports (For more information on these reports, refer to <i>CDS Reporting Procedures</i>.) <ul style="list-style-type: none"> <li>– Tender Breakdown Report – Depositary Agent – Indicates the cumulative tendered position for voluntary events, where participants have to submit instructions to a depositary agent</li> <li>– Rejected Option Selection Instruction Report – Depositary Agent – Indicates all option selection instructions not taken up under an offer</li> <li>– Rights Distribution Eligibility Report – Depositary Agent – Indicates the eligibility of a participant to receive rights using CDS</li> <li>– Subscription Breakdown Report – Depositary Agent – Indicates the total number of warrants and rights exercised, including the number of rights stepped-up, the quantity of additional shares requested and the subscription cost per participant.</li> </ul> </li> </ul> <p><b>3.6 Electronic Alert service</b></p> <p>The Electronic Alert service (EAS) distributes alerts to participants, notifying them of activities occurring across different CDS applications. This minimizes the amount of manual effort involved in monitoring activities. Alerts are available in email or web format.</p> <p><b>Note:</b> Email alerts are not encrypted so the confidentiality or security of the information is not guaranteed.</p> <p><b>Note:</b> Web alerts are automatically deleted as specified on the alert inbox.</p> <p>To request access to this service, use the IBM Tivoli Identity Manager self-care interface (<a href="http://www.cdsservices.ca/itim/self">www.cdsservices.ca/itim/self</a>).</p> <p>Users can request the following roles per CUID within EAS:</p> <p>User – Maintain personal subscription profiles, and</p>

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<ul style="list-style-type: none"> <li>• <u>User – Maintain personal subscription profiles, and display and delete web alerts</u></li> <li>• <u>Supervisor – Maintain user and group subscription profiles, lock users and display and delete web alerts.</u></li> </ul> <p><u>Warrant subscriptions</u></p> <p><u>Depository agents can currently subscribe to receive warrant subscription alerts. These alerts advise the agents of ongoing warrant subscription requests having reached a settled status, indicating that action is required on their part.</u></p> <p><u>The following alert types are available:</u></p> <ul style="list-style-type: none"> <li>• <u>Initial CA instruction received – Depository agents receive an alert the first time a tender instruction is submitted for a particular event/option on a particular day. They will not receive alerts when additional participants tender to that event/option throughout the day.</u></li> <li>• <u>CA instruction received – Depository agents receive an alert every time a tender instruction is submitted for a particular event/option.</u></li> </ul>	<p>display and delete web alerts</p> <p>Supervisor – Maintain user and group subscription profiles, lock users and display and delete web alerts.</p> <p><b>Warrant subscriptions</b></p> <p>Depository agents can currently subscribe to receive warrant subscription alerts. These alerts advise the agents of ongoing warrant subscription requests having reached a settled status, indicating that action is required on their part.</p> <p>The following alert types are available:</p> <ul style="list-style-type: none"> <li>• Initial CA instruction received – Depository agents receive an alert the first time a tender instruction is submitted for a particular event/option on a particular day. They will not receive alerts when additional participants tender to that event/option throughout the day.</li> <li>• CA instruction received – Depository agents receive an alert every time a tender instruction is submitted for a particular event/option.</li> </ul>