

**13.1.4 CDS Notice and Request for Comment – Material Amendments to CDS Procedures Relating to Tax Breakdown Service Procedures**

**CDS Clearing and Depository Services Inc. (CDS®)**

**MATERIAL AMENDMENTS TO CDS PROCEDURES**

**TAX BREAKDOWN SERVICE PROCEDURES**

**REQUEST FOR COMMENTS**

**A. DESCRIPTION OF THE PROPOSED AMENDMENTS**

The proposed amendments to CDS Participant Procedures introduce a new service to be offered to Participants under the auspices of CDS. The proposed amendments to CDS Participant Procedures include a product description of the mutual fund and limited partnership tax breakdown service ("TBS"), the type of data that the service will provide, and the several ways in which that information can be obtained.

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

The TBS was developed by The Canadian Depository for Securities Limited at the request of the Investment Dealers Association of Canada (the "IDA" - as it was then known) and, since the re-organization of the CDS group of companies, has been offered as a free service to the public and to Participants by CDS's affiliate, CDS Innovations Inc.

The service has, to-date, been based on the voluntary submission and filing of T3 and T5 taxation information by issuers. The issuers submit the required information via a spreadsheet form provided in the website interface. Neither CDS nor CDS Innovations Inc. has taken responsibility for the information provided by the issuers on the website, and neither CDS nor CDS Innovations Inc. has undertaken to validate either the identity of the person or organization submitting the information or the accuracy of the information itself.

In 2005, CDS received a request from the Investment Industry Association of Canada (the industry association segment of the organization previously known as the IDA) asking that CDS assume responsibility for the TBS website and asking that CDS maintain the information on behalf of its Participants and the marketplace. In 2006 the IIAC renewed its request for upgrades and improvements to the TBS website.

In 2007, the federal government introduced amendments to the Income Tax Act and the Income Tax Regulations that will *mandate* that issuers disclose the information previously provided by issuers on a voluntary basis. CDS Innovations Inc. will continue to operate the TBS website as a free public service.

The proposed amendments to CDS Procedures, however, permit CDS Participants to subscribe for the provision of consolidated files and/or updates and notifications to the information contained in that file. This enhanced subscription service will be provided to Participants by CDS.

**C. IMPACT OF THE PROPOSED AMENDMENTS**

A significant part of CDS's core services to its Participants is the provision of a wide variety of marketplace information that is either a product of its clearing, settlement and depository services (CDSX), or is collected and collated for and provided to its Participants. The TBS will provide a further subscription option for Participants wishing to use collected information. As the information is not of a transactional nature, but is rather collected from third party issuers in order to disseminate the taxation status of securities issues, CDS foresees no direct impact to itself or to its risk profile.

**C.1 Competition**

CDS is uniquely positioned to provide the TBS to its Participants and other market participants. The service will be provided to all CDS Participants on a subscription basis.

**C.2 Risks and Compliance Costs**

The development of and updates to the TBS was undertaken at the request of Participants and is intended to reduce both the risks and costs associated with Participants taxation filing obligations. There are no compliance issues for Participants vis-à-vis CDS in regard to the TBS.

**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 the proposed service is informational in nature rather than transactional, comparison to international standards is not warranted.

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

**D.1 Development Context**

The TBS, and the proposed amendments to CDS participant procedures, were developed at the behest of, and on behalf of, CDS Participants who require the information for taxation filing purposes.

**D.2 Procedure Drafting Process**

CDS Procedure amendments are developed by CDS personnel (and in cooperation and consultation with its Participants where required) and are reviewed and approved by CDS's Strategic Development Review Committee ("SDRC").

**D.3 Issues Considered**

In developing the service, CDS, in consultation with its Participants, considered the nature of the information to be provided, the currency of information to be maintained (i.e., how often the information could or should be updated), and the ability of CDS and its affiliates to provide the information to both its Participants and non-participants via the various communications and transmission facilities available.

**D.4 Consultation**

CDS personnel consulted with the Entitlements Subcommittee of the SDRC as well as with the subcommittee on client tax of the Investment Industry Association of Canada.

**D.5 Alternatives Considered**

The TBS is a new service to be offered by CDS; no alternatives currently exist for the centralized provision of such information for Canadian securities issues. In the absence of the proposed service, Participants are required to collect and collate this information themselves.

The existing alternative to a centralized source of dividend eligibility information is for CDS Participants, and other market participants, to make their own determinations with respect to the eligibility of dividends received for preferential tax treatment. This alternative was rejected in favour of the proposed service, which was considered more efficient.

**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.

CDS intends to make the TBS available to its Participants as of 7 January, 2008 in order to provide them with up-to-date dividend eligibility information for the 2007 taxation year.

**E. TECHNOLOGICAL SYSTEMS CHANGES**

**E.1 CDS**

CDS already provides numerous files to its Participants in the context of its Batch and Interactive Service. No technological systems changes will be required.

## E.2 CDS Participants

The TBS is intended to simplify and streamline the collection of the taxation status of Canadian securities. Participants are already required to collate this information and manipulate it as part of their filing obligations for each taxation year. No technological changes to Participant systems or to their data provision arrangements with CDS in order to access the information.

## E.3 Other Market Participants

Market participants who are *not* CDS Participants will continue to be able to access the information via a free online service currently offered by CDS affiliate CDS Innovations Inc. The free online service provides dividend eligibility information for individual issues. Non-Participants will also now be able to subscribe to the TBS via CDS Innovations Inc. to receive the archive file, the monthly file, and/or email notifications.

## F. COMPARISON TO OTHER CLEARING AGENCIES

No service comparison is possible, as the proposed service is unique to the Canadian capital marketplace.

## 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 delivered by **November 26, 2007** to:

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

Fax: 416-365-1984  
e-mail: [attention@cds.ca](mailto:attention@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  
Directrice du secrétariat  
Autorité des marchés financiers  
800, square Victoria, 22<sup>nd</sup> floor  
PO box 246, tour de la Bourse  
Montréal (Québec) H4Z 1G3

Fax: (514) 873-7455  
e-mail: [consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

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Fax: 416-595-8940  
e-mail: [cpetlock@osc.gov.on.ca](mailto:cpetlock@osc.gov.on.ca)

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

## I. PROPOSED 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.

JAMIE ANDERSON  
Managing Director, Legal

## APPENDIX "A"

## PROPOSED PROCEDURE AMENDMENT

Text of CDS Participant Procedures marked to reflect proposed amendments	Text CDS Participant Procedures reflecting the adoption of proposed amendments
<p><b><u>6. 21 - Mutual Fund and Limited Partnership Tax Breakdown Service</u></b></p> <p><u>The Mutual Fund and Limited Partnership Tax Breakdown Service provides tax breakdown information on distributions made by mutual fund trusts, mutual fund corporations and limited partnerships (reported on T3, T5 and T5013 information slips respectively). The tax breakdown information includes reporting dividend payments eligible for favourable tax treatment (according to Canadian tax legislation) as of January 2007.</u></p> <p><u><b>Note:</b> CDS is only responsible for compiling the information provided by issuers. The information provided through this service is not intended to be used as tax advice by participants or their clients.</u></p> <p><u>The tax breakdown information available through this service applies to distributions on CDSX eligible and CDSX non-eligible Canadian issues for each taxation year.</u></p> <p><u>Participants have the following paid and free service options for accessing the information available through this service:</u></p> <ul style="list-style-type: none"> <li><u>• Mutual fund trust, mutual fund corporation, limited partnership archive file (paid service) – Participants can subscribe to a consolidated file containing all tax breakdown details on distributions made within a specific taxation year.</u></li> <li><u>• Mutual fund trust, mutual fund corporation, limited partnership daily file (paid service) – Participants can subscribe to a daily incremental file containing tax breakdown details on distributions made within a specific taxation year.</u></li> <li><u>• E-mail notification (paid service) – Participants can subscribe to an e-mail notification service that reports only replacement records made from January 1 to April 30. Each replacement record contains tax breakdown details on distributions made within a specific taxation year.</u></li> <li><u>• Online web-based query (free service) – Participants can view mutual fund trust, mutual fund corporation and limited partnership tax breakdown information for individual issues on the CDS website (<a href="http://www.cdsinnovations.ca">www.cdsinnovations.ca</a>).</u></li> </ul> <p><u><b>Note:</b> The paid services are charged annually per participating CUID.</u></p> <p><u>For more information on the files, refer to the Mutual fund trust, mutual fund corporation, limited partnership archive file and Mutual fund trust, mutual fund corporation, limited partnership daily file in <i>CDS Batch and Interactive Services – Technical Information</i>.</u></p> <p><u>Participants may subscribe to this service by completing the Data Transmission Request form (CDSX218).</u></p>	<p><b>6. 21 - Mutual Fund and Limited Partnership Tax Breakdown Service</b></p> <p>The Mutual Fund and Limited Partnership Tax Breakdown Service provides tax breakdown information on distributions made by mutual fund trusts, mutual fund corporations and limited partnerships (reported on T3, T5 and T5013 information slips respectively). 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