

**13.1.5 CDS Notice and Request for Comments – Material Amendments to CDS Procedures Relating to Dividend Eligibility Reporting Service Procedures**

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

**MATERIAL AMENDMENTS TO CDS PROCEDURES**

**DIVIDEND ELIGIBILITY REPORTING SERVICE PROCEDURES**

**REQUEST FOR COMMENTS**

**A. DESCRIPTION OF THE PROPOSED AMENDMENTS**

The proposed amendments to CDS Participant Procedures introduce a new service – the Dividend Eligibility Reporting Service (“DERS”) to be offered to Participants. The proposed amendments to CDS Participant Procedures include a product description, 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**

In 2007 the Government of Canada introduced legislation that resulted in favourable tax treatment being afforded to investors under certain circumstances based on the type of dividends paid by Canadian corporations, mutual fund trusts, and partnerships. The legislation requires Canadian corporations, mutual fund trusts and partnerships to classify dividends as eligible or non-eligible. Dividend classifications will be reported accordingly on T3, T5 or T5013 information slips issued to investors.

The DERS provides CDS participants with information required to identify dividends received from a Canadian source that are eligible for favourable tax treatment, based on the aforementioned taxation changes.

The service was developed to provide CDS’s Participants with a central point of reference to facilitate the preparation of tax information slips for their clients. The service applies to dividend payments on CDSX® and non-CDSX eligible Canadian issues for each tax year as of January 1, 2007.

The Dividend Eligibility Reporting Service:

- Provides dividend eligibility data in a file format that will allow participants to produce T3 and T5 information slips to their clients with accurate information.
- Includes an option for yearly archive data that will allow participants to inquire about past years.
- Includes an option to receive an e-mail file on changes or updates from issuers.

**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 DERS 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.

The DERS will afford CDS’s Participants the following benefits, among others:

- Investors will benefit from favourable tax treatment based on participant’s ability to report on accurately T3 or T5 forms, respectively.
- Participants will not need to develop processes or systems to collect eligibility data directly from issuers.
- Participants will receive data files based on their existing infrastructure arrangement with CDS.

**C.1 Competition**

The service will be provided to all CDS Participants on a subscription basis.

## C.2 Risks and Compliance Costs

The development of the DERS 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 DERS.

## 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 DERS was developed at the behest of, and on behalf of, CDS Participants, who require the information for taxation filing purposes.

### D.2 Procedure Drafting Process

The DERS procedure amendments were 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"). The service description comprising the substance of the proposed amendments was developed by CDS product development staff.

### D.3 Issues Considered

In developing the service CDS, in consultation with its Participants, considered the nature of the information to be provided, the scope 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 its 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 DERS is a new service to be offered by CDS; no alternatives currently exist for the centralized provision of dividend eligibility for Canadian securities issues. In the absence of the DERS, 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, 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 proposes to make the DERS available to its Participants as of **2 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 DERS 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 be able to access the information via a free online service offered by CDS affiliate CDS Innovations Inc. The free online service will provide dividend eligibility information for individual issues. Non-Participants will also be able to subscribe to the DERS 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)

Cindy Petlock  
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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><u>6.11 Dividend Eligibility Reporting Service</u></p> <p><u>The Dividend Eligibility Reporting Service provides information on dividend eligibility designations of Canadian corporations to CDS participants. These designations determine if dividends paid by Canadian corporations (according to Canadian tax legislation) are eligible for favourable tax treatment.</u></p> <p><u>Note: CDS is only responsible for compiling the eligibility 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 eligibility information available through this service applies to dividend payments made on CDSX eligible and CDSX non-eligible Canadian issues for each taxation year as of January 1, 2007.</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>• Dividend eligibility archive file (paid service) – Participants can subscribe to a consolidated file containing all dividend eligibility information for a specific taxation year.</u></li> <li><u>• Dividend eligibility monthly file (paid service) – Participants can subscribe to a file containing cumulative eligibility information on dividends declared in the current taxation year, up to the end of the previous month.</u></li> <li><u>• E-mail notification (paid service) – Participants can subscribe to an e-mail notification service containing additions and changes made from January 1 to January 31, for dividend payments that were payable in the previous taxation year.</u></li> <li><u>• Online web-based query (free service) – Participants can view dividend eligibility information for individual issues on the CDS website (<a href="http://www.cdsinnovations.ca">www.cdsinnovations.ca</a>).</u></li> </ul> <p><u>Note: The paid services are charged annually per participating CUID.</u></p> <p><u>For more information on the files, refer to the Dividend eligibility archive file and Dividend eligibility monthly file in CDS Batch and Interactive Services – Technical Information.</u></p> <p><u>Participants may subscribe to this service by completing the Data Transmission Request form (CDSX218).</u></p>	<p><b>6.11 Dividend Eligibility Reporting Service</b></p> <p>The Dividend Eligibility Reporting Service provides information on dividend eligibility designations of Canadian corporations to CDS participants. These designations determine if dividends paid by Canadian corporations (according to Canadian tax legislation) are eligible for favourable tax treatment.</p> <p><b>Note:</b> CDS is only responsible for compiling the eligibility information provided by issuers. The information provided through this service is not intended to be used as tax advice by participants or their clients.</p> <p>The eligibility information available through this service applies to dividend payments made on CDSX eligible and CDSX non-eligible Canadian issues for each taxation year as of January 1, 2007.</p> <p>Participants have the following paid and free service options for accessing the information available through this service:</p> <ul style="list-style-type: none"> <li>• Dividend eligibility archive file (paid service) – Participants can subscribe to a consolidated file containing all dividend eligibility information for a specific taxation year.</li> <li>• Dividend eligibility monthly file (paid service) – Participants can subscribe to a file containing cumulative eligibility information on dividends declared in the current taxation year, up to the end of the previous month.</li> <li>• E-mail notification (paid service) – Participants can subscribe to an e-mail notification service containing additions and changes made from January 1 to January 31, for dividend payments that were payable in the previous taxation year.</li> <li>• Online web-based query (free service) – Participants can view dividend eligibility information for individual issues on the CDS website (<a href="http://www.cdsinnovations.ca">www.cdsinnovations.ca</a>).</li> </ul> <p><b>Note:</b> The paid services are charged annually per participating CUID.</p> <p>For more information on the files, refer to the <u>Dividend eligibility archive file and Dividend eligibility monthly file in CDS Batch and Interactive Services – Technical Information.</u></p> <p>Participants may subscribe to this service by completing the Data Transmission Request form (CDSX218).</p>