

## Chapter 13

# SRO Notices and Disciplinary Proceedings

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### 13.1.1 CDS Rule Amendment Notice – Technical Amendments to CDS Procedures Relating to Withholding Tax Reconciliation

CDS Clearing and Depository Services Inc. (CDS®)

TECHNICAL AMENDMENTS TO CDS PROCEDURES

WITHHOLDING TAX RECONCILIATION PROCEDURES

NOTICE OF EFFECTIVE DATE

#### A. DESCRIPTION OF THE RULE AMENDMENT

##### *Background*

In 2006, the CDS Strategic Development Review Committee (“SDRC”) Entitlement subcommittee recommended that enhancements be made to CDS’ withholding tax reconciliation process in order to enable improved and more frequent withholding tax reporting by CDS to Participants. The proposed amendments are part of a continued effort to implement the facilities required for a comprehensive solution to satisfy tax processing and reporting for Canadian-issued, dual income securities.

The creation of a facility to process multiple source entitlements eliminates the need for Qualified Intermediary Participants to provide CDS with hardcopy withholding tax instructions and will allow Participants to submit their tax elections online. The proposed amendments do not impose new responsibilities on CDS Participants; rather, where withholding tax instructions are currently provided to CDS in hard copy, the details of these elections will be provided by Participants online.

The thrust of the proposed amendments is to eliminate the manual processing, by CDS, of these instructions. This internal automation effort will both enhance processing efficiency and reduce the risk of manual processing error. Currently, CDS operations personnel create a Withholding Tax statement manually with participant tax allocation details; this statement is then faxed to the Withholding agent. With the implementation of the proposed amendments, the statement will be generated automatically as a daily RMS report which can then be forwarded to the appropriate agent.

With the implementation of the proposed amendments, appropriate tax will be withheld automatically upon release of payment; this process will also eliminate the need for manual funds adjustments. Participants will be able to view the withholding details on entitlement reports. As well, the tax details will be created automatically in the tax table to be extracted for 1042S monthly reporting.

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

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

[en francais: <http://www.cds.ca/cdsclearinghome.nsf/Pages/-FR-Documentation?Open>]

##### *Description of Proposed Amendments*

The *CDSX Procedures and User Guide* will be amended as follows:

- The Event Tax Details screen will now include information in respect of the dual sources of income related to a particular security and event.
- New Section 8.11 provides a description of how participants make their withholding tax elections with respect to dual source income event securities. Details that will, on the implementation of the proposed amendments, be entered online are currently provided to CDS personnel in hard copy.

- New Section 8.11 also provides details with respect to how payments are made based on the online instructions received from the Participant. **Note:** The changes to CDS internal processing (from manual to automatic) may have the effect of reducing any delays inherent in any manual process.

- Finally, new Section 8.11 provides details with respect to the monthly reporting of withheld tax to Participants and details how participants can receive the file and the data.

**B. REASONS FOR TECHNICAL CLASSIFICATION**

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

**C. EFFECTIVE DATE OF THE RULE**

Pursuant to Appendix A ("Rule Protocol Regarding The Review And Approval Of CDS Rules By The OSC") of the OSC Recognition and Designation Order, as amended 1 November, 2006, and *Annexe A ("Protocole d'examen et d'approbation des Règles de Services de Dépôt et de Compensation CDS Inc. par l'Autorité des marchés financiers")* of AMF Decision 2006-PDG-0180, made effective on 1 November, 2006, CDS has determined that these amendments will be effective on **November 5, 2007**.

**D. QUESTIONS**

Questions regarding this notice may be directed to:

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