1.1.2 Notice of Commission Approval – Material Amendments to CDS Procedures Relating to Maximum Debt Trade Amount

CDS CLEARING AND DEPOSITORY SERVICES INC.

MATERIAL AMENDMENTS TO CDS PROCEDURES

MAXIMUM DEBT TRADE AMOUNT

NOTICE OF COMMISSION APPROVAL

In accordance with the Rule Protocol between the Ontario Securities Commission ("Commission") and CDS Clearing and Depository Services Inc. ("CDS®"), the Commission approved on July 3, 2007, amendments filed by CDS to its procedures relating to Maximum Debt Trade Amount.

The purpose of the amendments is to reduce (1) market inefficiency and (2) the potential for financial loss and/or liquidity issues. The amendments provide that trades in debt securities with a par value greater than $50 million be split into $50 million or smaller increments. This edit will apply to, but not be limited to, all Government of Canada Bonds, Government of Canada T-Bills, Canada Housing Trust Securities, and all Provincial Bonds and T-Bills. The amendments to the Procedures were developed at the request of, and in cooperation with, the Investment Industry Association of Canada Repo & Funding Subcommittee.

A Notice and Request for Comments with respect to the proposed amendments was published on March 9, 2007 at (2007) 30 OSCB 2282 in the Commission's Bulletin. Reference to U.S. Dollars and Canadian Dollars was inadvertently omitted from the version of the proposed amendments published for comment. A blacklined copy of the revised procedure appears in Appendix A; the insertion is marked with double-underline.

Pursuant to a request by the CDS/Investment Industry Association of Canada working group, the public comment period was extended until May 4, 2007. The request was made to permit members of the working group further time to evaluate the potential effects on technological systems. CDS received three written submissions during the public comment period. A summary of the comments received and CDS's responses are attached in Appendix B.

APPENDIX A:

Revisions to Version Published for Public Comment

Amendments are indicated with a double underline.

Text CDS Participant Procedures reflecting the adoption of proposed amendments
CHAPTER 4 **Non-exchange trades** … **Maximum debt trade amount** Debt trades entered directly into CDSX by a CDS participant with a delivery versus payment par value of $50 million ($USD or $CAD) or less must be submitted in the par value and net amount in which the trade was executed. A debt trade with a delivery versus payment par value in excess of $50 million must be submitted in par value increments of $50 million and a single tail for any remaining amount. The following is exempt from the $50 million maximum amount: • Receiver General of Canada tri-party repo transactions (i.e.,tri-party repo trades). These trades are identified by the CUID RBCC and the internal account T13055391. • Trades automatically generated as a result of processing by CDSX, ATON, IMHub, cross border moves with DTC and any other CDS system.

APPENDIX B:

Summary of written comments received on proposed material amendments to CDS procedures
(Comment period from March 9, 2007 to May 4, 2007)[1]

While generally in favour of increasing market efficiency, two commentators expressed concern that the proposed amendments might not accomplish their stated goal of reducing gridlock, delays in payment exchange, and settlement failures. The commentators also noted the complexity of publicizing the proposed amendments and gaining wide industry acceptance therefore.

Public Comment	CDS Response
COMMENT ONE – MCLEAN BUDDEN *"…although the proposed change will decrease the size of trades it will increase the volume of trades, thereby resulting in no appreciable reduction of gridlock In addition, the increase in trade volumes will increase workload and the investment manager level as well as the custodian level, potentially resulting an increase in failed settlements…"* *"…McLean Budden proposes instituting the CAN $50 Million par value limit on trades submitted after 2:00PM EST…"*	The initial request for these proposed amendments, and the implementation of the maximum debt trade limit, came from the Repo & Funding subcommittee of the IIAC. As an initial step towards the trade limit, the members of CDS' SDRC Debt subcommittee agreed voluntarily to impose the $50 million par value limit on their trades, pending regulatory approval of the proposed amendment. The practical implication of this voluntary adherence is the 'street standard' which is already in effect, and has been for several months. The gridlock which the proposed amendments are intended to address is not related to the number of trades that are made late in the trading day. Rather, the term refers to problems with delayed or failed settlement of extremely large debt trades for which large securities positions must be maintained by our participants. CDS's Participants feel that the costs associated with reducing the failure or delay in settlement of these large trades more than offsets any concomitant increase in trading volume, both from a direct cost perspective and from the perspective of overall market efficiency. CDS' SDRC Debt subcommittee includes representatives from the custodian community – all of whom have been afforded the opportunity to comment on the proposed amendments at all stages of their development. It remains the view of the SDRC Debt subcommittee that the proposed amendments will *reduce* the risk of failed settlements, rather than increase them. It is CDS's view - as approved by the SDRC - that the market and its participants are best served by adhering as closely as possible to the established standard in the United States, where a maximum debt trade amount currently exists. The commentator's proposal would, in light of the efforts and resources already expended in implementing the street standard, be cause for more confusion at every level where market participants are affected.
COMMENT TWO – CIBC MELLON *"While the proposed standard mandates broker dealers to [sic] abide by the new rule when reporting trades to CDSX, it does not require them to limit the value of debt transactions when executing large trades or when sending confirmations to the investment managers. Therefore, we anticipate that many investment managers will continue to send custodians a single instruction for debt trades exceeding $50 million.*	CDS has tasked, and continues to task, considerable resources to the communication of the implementation of the proposed amendments to the investment manager community as well as to market participants in general. It is CDS' view that the initiative will be sufficiently well known at the time of implementation to mitigate the situation suggested by the Commentator. In addition, the Bank of

[1] The public comment period was extended to May 4th, 2007 at the request of the Working Group.

Public Comment	CDS Response
Since CIBC Mellon is contractually obligated to clients to only settle trades at the depository that match their investment manager instructions, it will be necessary for us to approach investment managers to amend all instructions that do not match. This requires a great deal of manual intervention and may result in matching and settlement delays at the depository and end of day gridlock, while we wait for amendments. *To avoid these delays, we propose that dealers adopt a policy of only executing trades and issuing confirmations that are consistent with the lots of settlement. This would satisfy CIBC Mellon and the industry's desire for STP by allowing these trades to auto match and auto settle at the depository, thereby eliminating any settlement delays."*	Canada has agreed to make systems changes based on the proposed amendments such that the maximum purchase amount for Government of Canada securities will not exceed the proposed maximum debt trade limit. CDS is of the view that the cost to marketplace participants of the manual intervention referenced, if or when needed, is more than offset by the reduction of settlement failures or delays and the more efficient use of capital that the proposed amendments are intended to address.
COMMENT THREE - DEUTSCHE BANK SECURITIES INC. *[Commentator wrote that] The CDS proposed amendments to its procedures providing trades in debt securities be split into CAD 50 million or smaller increments will impact with the following benefits:* - *reduce the risk of settlement delays and potential fails involving large trades.* - *reduce gridlock on the CDSX clearing system - which is now being experienced by all users.* - *reduce the amount of time spent by operations staff splitting trades down throughout the day and reducing costs associated with deleted trades in CDSX.* - *reduce the levels of inventories needed to manage the efficient clearing process.* - *reduce costs to Investment Dealers for charges incurred for line of credit fees.* - *help improve straight through processing.* - *overall will create a environment of better management of trades throughout the industry.*	 CDS concurs with these comments.