

13.1.6 CDS Rule Amendment Notice – Technical Amendments to CDS Procedures Relating to Claims on Loan Items

CDS CLEARING AND DEPOSITORY SERVICES INC. (CDS®)

TECHNICAL AMENDMENTS TO CDS PROCEDURES

CLAIMS ON LOAN ITEMS

NOTICE OF EFFECTIVE DATE

A. DESCRIPTION OF THE RULE AMENDMENT

Background

On May 7, 2007, CDS implemented amendments to its procedures relating to the automation of the claims process between a lender and a borrower of an outstanding CDSX® pledge. This process was previously completed manually and involved operations staff resources of both Participants and CDS. The objective of the automation was to ensure systemic consistency and address such claims in a manner substantially similar to the way the CDSX entitlement process handles outstanding trades and the collateral items held in outstanding pledges.

Subsequent to the implementation, Participant lenders expressed concerns with regard to securities that have been 'returned' to the lender as a result of a stock-split event. The existing automated process returns the result of a stock-split (e.g., 2:1 split of 100 shares = 100 shares returned to the lender) to the lender automatically. The concerns expressed relate first to the additional manual processing required to move the split-result securities back to the borrower, and second, to the loss of revenue in the context of a securities lending agreement, the revenue from which is based on the number of shares borrowed. The automation process implemented on May 7, 2007 has raised concerns *only* in this context. In response to the concerns expressed, CDS has undertaken to discontinue the auto-claim process for stock-split events. These events will, upon implementation of the proposed changes to CDS Procedures, be processed manually in the same manner as for other asset-backed security loan items.

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

Description of Proposed Amendments

The proposed amendments to Chapter 8 of the *CDSX Procedures and User Guide* specify that for certain distribution events, the security loan item is not affected and, further, that a stock-split event falls into the category of an exception scenario which will have to be processed manually by the Participant.

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 **July 23, 2007**.

D. QUESTIONS

Questions regarding this notice may be directed to:

Tony Hoffmann
Legal Counsel
The Canadian Depository for Securities Limited
85 Richmond Street West,
Toronto, Ontario, M5H 2C9

Telephone: 416-365-3768 ; Fax: 416-365-1984
e-mail: attention@cds.ca

JAMIE ANDERSON
Managing Director, Legal