

13.1.6 CDS Notice and Request for Comments – Material Amendments to CDS Procedures Relating to Security Master File Enhancement

CDS CLEARING AND DEPOSITORY SERVICES INC. (CDS®)

MATERIAL AMENDMENTS TO CDS PROCEDURES

SECURITY MASTER FILE ENHANCEMENT

REQUEST FOR COMMENTS

A. DESCRIPTION OF THE PROPOSED AMENDMENTS

The proposed amendments, made at the request of the CDS Strategic Development Review Committee (“SDRC”) Debt & Equity subcommittees, will add an additional field to the Security Master File (“SMF”) to enable the setting of a limit on the minimum trading unit for a security. The proposed amendments will mitigate the current system limitation in situations where a trade in a security has a different minimum denomination from the trading multiple minimum as specified by the issuer and recorded in the SMF. For example, currently if a security is defined in the CDSX® SMF as having a 100,000 minimum ledger denomination it can only be traded in denominations of 100,000’s so that a trade for 110,000 could not be entered. The proposed amendments would permit any trades equaling or exceeding the minimum trade quantity to be processed. The existing CDSX functionality considers only two minimum denomination criteria:

- Minimum Withdrawal Denomination – the withdrawal amount must be entered in increments of this number
- Minimum Ledger Denomination – this edit controls all CDSX functionality except for withdrawal. Entries must be in multiples of this number.

CDS was asked to modify the system edits to provide the ability to allow a trade entry to have a minimum trade denomination with multiple increments (e.g. if the minimum withdrawal denomination is 100,000, a participant could not enter a trade for less than 100,000, but could enter a trade for 101,000 or 200,000, depending on the minimum trade quantity).

The new data element, proposed primarily to facilitate clearing and settlement activities for certain foreign issued securities, will be introduced on a new Security Attribute screen. Additionally, the Source of Income for Withholding Tax field will be moved to the Security Attribute screen in order to accommodate future development of multiple country codes for a single security required for 1042S (U.S.) reporting.

B. NATURE AND PURPOSE OF THE PROPOSED AMENDMENTS

The only impact to the text of the *CDS Procedures & User Guide* will be changes to the screen-shots currently provided therein.

The following fields will move to the new CDSX screen, with no changes to how CDSX treats the values in those fields:

- Minimum Ledger Denomination
- Minimum Certification Denomination for Withdrawal

The following fields will move, but will be 'enhanced':

- Source of Income for Withholding Tax (field will be updated from one country code to one Primary country code and up to five Secondary country codes)

The following field will be added:

- Minimum Trade Quantity

C. IMPACT OF PROPOSED AMENDMENTS

The proposed amendments establish that the Minimum Trade Quantity (MTQ) will systemically be defaulted to 1 (i.e. the minimum quantity for which a trade can be entered in CDSX will be 1). During the initial setup of a security, a CDS Eligibility analyst will enter the Issuer-determined amount in this field manually. For example, if a bond can only be traded for a minimum quantity of 5,000, but has no incremental limits above that minimum, the analyst will enter an MTQ of 5,000 and a Ledger denomination of 1. If a bond is only to be traded in increments of 5,000, the MTQ will be 5,000 as well as the Ledger denomination.

C.1 Competition

The proposed amendments will have no impact on competition.

C.2 Risks and Compliance Costs

The proposed amendments will have no impact with respect to compliance costs for the market or market participants save where technological changes may be required.

C.3 Comparison to International Standards

A comparison to international standards is not applicable for the proposed amendments.

D. DESCRIPTION OF THE PROCEDURE DRAFTING PROCESS

D.1 Development Context

As previously noted, the proposed amendments involve a change in the graphical representation of one screen in the CDSX system. The proposed amendments are within the context of CDS's regular schedule of systems enhancements and improvements, and within the normal course of business in respect of such improvements.

D.2 Rule Drafting Process

The SDRC reviews and approves procedure amendments. The SDRC is a committee that includes members from CDS's various stakeholders, including Banks, Broker-dealers, Settlement Agents, the *Caisse centrale Desjardins*, and transfer agents. The SDRC's mandate is to – among other responsibilities – ensure that systems development projects are appropriately evaluated and to propose, review, and approve CDS User Guides and Procedures.

D.3 Issues Considered

The SDRC weighed the proposed amendments against the *status quo* and determined that the proposed amendments would increase the efficiencies of CDS systems.

D.4 Consultation

The system change was made at the request of, and in consultation with, the Debt subcommittee of the SDRC with a view to increasing the flexibility of participants when submitting trades into CDSX.

D.5 Alternatives Considered

The alternative to these proposed amendments was the *status quo* with respect to the SMF.

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".

Material amendments to CDS Procedures may become effective upon approval of the amendments by the Recognizing Regulators following public notice and comment.

Conditional on reception of such approval, CDS intends to implement the proposed amendments in Release 3 of its 2007 development year. Affected Participants and other stakeholders will be notified in accordance with the requirements of the CDS Participant Rules and via regular updates given during SDRC subcommittee meetings.

E. TECHNOLOGICAL SYSTEMS CHANGES

The proposed amendments will be implemented as part of CDS's regular quarterly systems change releases – in this case, the 3rd quarter release (R3). Affected members of the SDRC meet monthly to review systems change progress, and Participants will be notified of the implementation in accordance with CDS Participant Rules.

E.1 CDS

CDS will undertake several changes to CDSX screen layouts as well as the insertion of a new field in the SMF. (See section B, above)

E.2 CDS Participants

Participants subscribing to the 7030/7031 Security Master files will be required to map (i) the changes to Record Type 02 'Confirmed Issues Details' to include a second Withholding Tax Country Code field, and (ii) the layout of the new Record Type 06 'Security Attributes' which will report the Minimum Trading Quantity, to their internal systems.

E.3 Other Market Participants

Service Bureaus subscribing to the 7030/7031 Security Master files will be required to map (i) the changes to Record Type 02 'Confirmed Issues Details' to include a second Withholding Tax Country Code field, and (ii) the layout of the new Record Type 06 'Security Attributes' which will report the Minimum Trading Quantity, to their internal systems.

F. COMPARISON TO OTHER CLEARING AGENCIES

As the layout and software code for such functionality are generally considered to be trade secrets by other clearing agencies, no specific comparison is available at this time.

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 July 22, 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

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^e Anne-Marie Beaudoin
Directrice du secrétariat
Autorité des marchés financiers
Tour de la Bourse
800, square Victoria, C.P. 246, 22^e étage
Montréal, Québec H4Z 1G3

Télécopieur: 514 864-6381
Courriel : consultation-en-cours@lautorite.qc.ca

Cindy Petlock
Manager, Market Regulation
Capital Markets Branch
Ontario Securities Commission
Suite 1903, Box 55,
20 Queen Street West
Toronto, Ontario M5H 3S8

Fax: 416-595-8940
e-mail: 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

The proposed amendments to CDS Participant Procedures will affect only screens used within the CDSX system. These new screens will be posted on the CDS website as soon as they are available.

JAMIE ANDERSON
Managing Director, Legal