

13.1.4 CDS Rule Amendment Notice – Technical Amendments to CDS Procedures Relating to Automated Pledge Claims Procedures

CDS CLEARING AND DEPOSITORY SERVICES INC. (CDS®)

TECHNICAL AMENDMENTS TO CDS PROCEDURES

AUTOMATED PLEDGE CLAIMS PROCEDURES

NOTICE OF EFFECTIVE DATE

A. DESCRIPTION OF THE RULE AMENDMENT

Background

The amendments to CDS Procedures are proposed for clarification purposes in light of the automation, for most distribution events, of the 'claims' process between a lender and a borrower of an outstanding CDSX pledge. This process has previously been completed manually and involved operations staff resources both on the Participant and CDS sides of the transactions. The automation of the process will result in operations efficiencies for both CDS and its Participants. In addition, the objective of the automation is 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.

The proposed amendments clarify how the process has been automated and provide details with respect to certain rare exceptions where the process will have to remain a manual one. The proposed amendments do not introduce any new obligations on CDS Participants and are primarily made for informational purposes.

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

In English: <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 affect three CDS User Guides. The additional information provided by the proposed amendments clarifies the entitlement process of pledges and the processing rules for security loan items and pledge collateral items. Within each of these, both the general processing rules and the exception processing rules are codified for the information of CDS Participants. More specifically, the changes are as follows:

- In the CDS User Guide entitled *Participating in CDS Services*:
 - A note has been added at section 8.3 reminding participants that, under the new automated process, pending claims are not converted and that their settlement is the Participant's responsibility. This proposed amendment does not alter the status quo.
- In the CDS Procedures and User Guide:
 - At sections 8.2.7 and 8.7, the procedures have been updated to reflect the automated treatment of claims.
 - Section 8.7.1 has been updated to refer to the new report generated as a result of the new automated process.
 - Sections 8.14.1 and 8.14.2 have been added. These sections provide information for Participants concerning the treatment of entitlement events related to settled pledges. In particular, section 8.14.1 addresses mandatory events (and exception scenarios), distribution events (and exception scenarios), and the reporting of security loan items and claims. Section 8.14.2 outlines the general processing rules for pledge collateral items.
- In the CDS User Guide entitled CDS Reporting Procedures:
 - The proposed amendments change the title of one report (Report #238) and add details in respect of two new reports, entitled Security Loan Items – Entitlement Details Report (#171) and Security Loan Items – Upcoming Entitlements Report (#172).

- The proposed amendments also append a “pending claim transaction from entitlement processing of security loan items” to the transaction code ‘E’ (which is currently only a ‘pending entitlement’).

B. REASONS FOR TECHNICAL CLASSIFICATION

The amendments proposed pursuant to this Notice are considered technical amendments as 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 **May 7, 2007**.

D. QUESTIONS

Questions regarding this notice may be directed to:

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