

**13.1.3 CDS Notice of Request for Comments – Material Amendments to CDS Rules Relating to Entitlement Payments**

**THE CANADIAN DEPOSITORY FOR SECURITIES LIMITED (“CDS”)**

**MATERIAL AMENDMENTS TO CDS RULES  
ENTITLEMENT PAYMENTS**

**REQUEST FOR COMMENTS**

**DESCRIPTION OF THE PROPOSED AMENDMENTS**

On October 12, 2005, the Board of Directors of The Canadian Depository for Securities Limited (“CDS”) approved amendments to the CDS Participant Rules governing the payment of entitlements utilizing CDS systems. The proposed amendments will reflect agreements with financial institutions to process their own “on us” cheques for entitlement payments flowing through CDS.

*Amendment of Definition of “Payment Item”*

CDS proposes to amend the definition of a “Payment Item” in Rule 1.2.1 to explicitly include both paper-based and electronic items processed through the Automated Clearing Settlement System of the Canadian Payment Association.

*Amendment to Rule 5.9.5 – Defaulter’s Obligation*

Rule 5.9.5 describes the obligations of a “Defaulter” who is a member (or former member) of a Category Credit Ring. Paragraph (a) of Rule 5.9.5 provides an exemption from these obligations where the Participant incurs such liabilities or obligations while acting as an issuer or agent of the issuer in relation to the entitlement payment. The proposed amendment to Paragraph (a) of Rule 5.9.5 clarifies a “Defaulter’s” obligation to CDS, evidenced by an entry to the CDS Funds Account, will not be considered to be an obligation which will be exempted from Rule 5.9.5 obligations.

*Amendment to Rule 6.6.4 – Distribution of Entitlement Payments*

CDS proposes to amend Rule 6.6.4 to delete the specific provisions outlining when the payment of an entitlement obligation is to be credited to the funds account of the CDS entitlement ledger (the “CDS Funds Account”). The amended provision will be subject to Rule 6.6.8 which will be amended to provide specific direction regarding processing different forms of entitlement payments.

*Amendment to Rule 6.6.8 – Crediting of Entitlement Payments*

CDS is proposing to make a number of changes to Rule 6.6.8 which will establish how CDS will credit entitlement payments. Paragraph (a) will provide that an entitlement payment may be immediately credited to CDS Funds Account, pursuant to Rule 6.6.4, if it is received from the issuer or its agent by means of either an Acceptable Payment (the Large Value Transfer System (“LVTS”) tranche 1 or Fedwire) or a funds account debit from the funds account of the Bank of Canada or the fund account of another Participant.

Paragraph (b) of the proposed amendments to Rule 6.6.8 provides accommodation to allow processing of non-final payments. The accommodation for non-final payments will be provided both by CDS’s own banker for any item (including items drawn on financial institutions that are not participants or that do not provide accommodation processing) and by other financial institutions for their “on us” cheques and electronic payments.

Paragraph (c) of the amended Rule 6.6.8 (amending 6.6.8(d) of the current Rule) will provide that, if CDS receives a “Payment Item” in a form other than that described in Paragraph (a) or which they can not process in accordance with Paragraph (b), CDS may:

- (i) delay distribution of the entitlement to Participants, crediting the entitlement once it has been honoured for final value,
- (ii) distribute the entitlement by other means, or
- (iii) notify Participants that CDS will not distribute the entitlement and that Participants may take steps to exercise their rights in respect of the security on which the entitlement payment was made.

## NATURE AND PURPOSE OF THE PROPOSED AMENDMENTS

### *General*

CDS recognizes that changes in technology provide opportunities to expedite the payment of entitlements while managing the risk exposure of CDS and its Participants. The proposed amendments will distinguish between situations where such payments are final and irrevocable and situations where CDS is the recipient of non-final or revocable form of payments. The proposed amendments will reflect agreements with financial institutions to process their own "on us" cheques for entitlement payments flowing through CDS.

### *Amendment of Definition of "Payment Item"*

CDS is proposing to amend the definition of the term "Payment Item" to specifically include paper-based or electronic payment item acceptable for clearing through the Automated Clearing Settlement System of the Canadian Payments Association ("CPA") as "Payment Items". By including CPA settlement systems approved by the CPA as Payment Items, CDS is expanding the types of items which it will accept as a Payment Item to adopt CPA standards.

### *Amendment to Rule 5.9.5 – Defaulter's Obligation*

Rule 5.9.5 outlines the obligations of members of a Category Credit Ring where one of the members, or former members, of the ring becomes a "Defaulter". This Rule clarifies the role of the initial defaulting member of the Category Credit Ring as well as the obligations of all Participants who are members of the Defaulter's ring.

Paragraph (a) of Rule 5.9.5 provides a specific exclusion from the general obligations of a Participant who is a member of a Category Credit Ring where the Participant is acting in their role as an issuer of securities, or the agent for the issuer. During the review of the Rules governing the distribution of entitlements, a lack of clarity in the wording of paragraph (a) to Rule 5.9.5 was discovered. The proposed amendment is intended to clarify that the obligation of a Defaulter to CDS evidenced by an entry to CDS's Funds Account is **not** considered to be an obligation that is exempt from Category Credit Ring obligations. All members of a Category Credit Ring will be responsible for the obligations of a "Defaulter" to CDS for a failed deposit to CDS's Funds Account.

The exclusion established in paragraph (a) of rule 5.9.5 is intended to relate to the activities of a Participant where the Participant is acting in their role as an issuer of securities, or the agent for the issuer performing services relating to the issuance of the security rather than as an agent for the issuer for the purpose of payment of the entitlement. If however a Participant is acting as an agent on behalf of the issuer for the purpose of paying the entitlement (as opposed to agent for the purpose of issuing the security) the Category Credit Ring guarantees a Participant's obligation to CDS which will be evidenced by a negative funds account balance (except for amounts covered by a surety or fund), regardless of the purpose of the underlying transactions.

### *Amendment to Rule 6.6.4 – Distribution of Entitlement Payments*

CDS is proposing to amend Rule 6.6.4 in conjunction with the proposed amendments to Rule 6.6.8. Rule 6.6.4 currently indicates that CDS will not credit the CDS Funds Account until either:

- The amount of the entitlement is debited from the Bank of Canada's funds account or of the funds account entitlement processor; or
- An Acceptable Payment (as defined in CDS's Participant Rules) has been received by CDS.

The proposed amendment to Rule 6.6.4 will delete these provisions and make reference to Rule 6.6.8. The amended version of Rule 6.6.4 will clarify that funds received from Participants for the purpose of funding an entitlement payment will be credited to the CDS Funds Account and once such a credit has been made CDS will then distribute the funds as specified.

### *Amendment to Rule 6.6.8 – Crediting of Entitlement Payments*

The proposed amendments will delete much of the current Rule 6.6.8, including Paragraphs (b) and (c) in their entirety.

The proposed amendments to Rule 6.6.8 establish specific procedures for crediting entitlement payments in situations where the payment provided to CDS is in final, irreversible form and other situations where the payment to CDS is not final or may be reversed. The reference to the issuer/agent as the immediate source of the payment is intended to emphasize the distinction between such payments which are final and the accommodation processing of non-final payments.

Paragraph (a) of proposed amended Rule provides that an entitlement payment may be credited to the CDS Fund Account,

without processing where the payment originates directly from the issuer or its agent, without an accommodation payment having to be made to a third party where:

- A. The amount of the entitlement has been debited for the credit of the CDS Funds Account, at the instruction of the Bank of Canada or the Participant from the Funds Account of the:
- Bank of Canada; or
  - Participant acting in their capacity as:
    1. the issuer of the security;
    2. the agent of the issuer; or
    3. the Entitlements Processor for the security; or
- B. An Acceptable Payment is received by CDS from the issuer or its agent, in the amount of the entitlement.

An Acceptable Payment to CDS is defined in CDS Participant Rule 8.2.5 and includes:

- A message payable to CDS received through LVTS by the bank of Canada and credited to CDS's account; or
- Another type of transaction which results in an immediate, final, and irrevocable credit to CDS's account with the Bank of Canada.

Paragraph (b) of Rule 6.6.8 applies to other situations where the funding for an entitlements payment is funded by a bank or other financial institution acting for the issuer. In these situations the bank or other financial institution will provide CDS with either an Acceptable Payment or a funds account debit. This payment (unlike the immediately credited final payment described in paragraph (a)) is not being made directly by the issuer or its agent. The accommodation payment is good funds: it is either an LVTS tranche 1 or Fedwire payment that is final in the payment system or a funds account debit that is guaranteed by the credit ring. Therefore CDS can use these funds to make payment at payment exchange. However, the accommodation payment made by the issuer to the bank or other financial institution is not final. If the payment item is not honoured for final value, then by separate transactions CDS will require the receiving participants to repay the "bad" entitlement, and CDS reverse the corresponding entitlement through a debit to the account of each Participant to whom the entitlement was credited in accordance with Participant Rule 6.6.14.

Paragraph (c) of Rule 6.6.8, which is intended to replace Paragraph (d) of the current Rule, provides direction on how CDS will process an entitlement payment in a form other than the forms described in Paragraph (a) which cannot be processed in accordance with Paragraph (b). CDS will have the option to:

- Delay distribution of the entitlement to participants may be delayed until the payment item has been honoured for final value;
- Distribute the entitlement to Participants by any other means selected by CDS; or
- Inform Participants that CDS will not distribute the entitlement and that Participants may take steps pursuant to CDS Rule 6.9.1 to exercise their rights in respect of the security.

### **IMPACT OF THE PROPOSED AMENDMENTS**

The proposed amendments described above will, in the aggregate, have the effect of providing additional flexibility for issuers and Participants in relation to the distribution of entitlement payments while ensuring CDS will be able to process such payments in an efficient manner while minimizing its risk exposure.

The proposed amendments provide that CDS will be able to promptly credit Acceptable Payments, without processing, while still giving issuer's the option of utilizing payment methods which would result in CDS receiving non-final funds. By utilizing the methods of payment described in Paragraph (a) of 6.6.8 issuers will be able to transfer entitlement payments in a more efficient manner which will reduce the time lag between the time of the delivery of the funds and the time that it will be credited to CDS's Fund Account. By reducing the time lag between delivery and credit the process of entitlement payment can be expedited which will benefit issuers as well as investors.

Issuers will be entitled to process Payment Items as Paragraph (b) describes, however, such payments will not be final and are subject to reversal by CDS where the payment item to the intermediary does not clear.

It is anticipated that the proposed amendments will reduce the risk of payment failure to CDS and Participants by providing Participants with incentives to utilize the more direct methods of payment described in Paragraph (a) of Rule 6.6.8 as the risk of "clearing" the transaction will be eliminated. Paragraph (b) provides for the final processing of payments only after the accommodation payment has been cleared while Paragraph (c) gives CDS with absolute discretion regarding processing payments which do not comply with the requirements of Paragraph (a) or (b).

The proposed amendments will not require technological systems changes on the part of CDS, its Participants or other marketplace participants. Participants will have to consider changing their operational procedures to ensure that they can advise issuers on the options available for the payment of entitlements to allow them to utilize the most expeditious method available. Where a Participant is acting to accommodate an entitlement payment on behalf of an issuer they must ensure that they are aware of the requirements established in Rule 6.6.8 so as to provide efficient service.

**DESCRIPTION OF THE RULE DRAFTING PROCESS**

CDS is recognized as a clearing agency by the Ontario Securities Commission pursuant to Section 21.1 of the Ontario *Securities Act* and as a self-regulatory organization by the Autorité des marchés financiers pursuant to Section 169 of the Québec *Securities Act*. In addition CDS has 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".

Each amendment to the CDS Participant Rules is reviewed by CDS's Legal Drafting Group ("LDG"). The LDG is a committee which includes members of Participants' legal and business groups. The LDG's mandate is to advise CDS management and its Board of Directors on rule amendments and other legal matters relating to centralized securities depository and clearing services in order to ensure that they meet the needs of CDS, its Participants and the securities industry.

**COMMENTS**

Comments on the proposed amendments should be in writing and delivered by November 20, 2005 and delivered to:

Jamie Anderson  
Senior Legal Counsel  
The Canadian Depository for Securities Limited  
85 Richmond Street West  
Toronto, Ontario M5H 2C9

Fax: 416-365-1984  
e-mail: [attention@cds.ca](mailto:attention@cds.ca)

A copy should also be provided to the Ontario Securities Commission by forwarding a copy to:

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](mailto:cpetlock@osc.gov.on.ca)

CDS will make available to the public, upon request, copies of comments received during the comment period.

**COMPARATIVE ANALYSIS**

Because of the nature of the proposed amendment no analysis of comparable requirements of other clearing agencies was undertaken.

**PUBLIC INTEREST ASSESSMENT**

In analyzing the impact of the proposed amendments to the Participant rules, CDS has determined that the implementation of these amendments would not be contrary to the public interest.

**PROPOSED RULE AMENDMENTS**

Appendix "A" contains text of current CDS Participant Rules marked to reflect proposed amendments as well as text of these rules reflecting the adoption of the proposed amendments.

**QUESTIONS**

Questions regarding this notice may be directed to:

Michael Brady  
Senior Legal Counsel  
The Canadian Depository for Securities Limited  
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TOOMAS MARLEY,  
VICE-PRESIDENT, LEGAL AND CORPORATE SECRETARY

**APPENDIX "A"**  
**PROPOSED RULE AMENDMENT**

<b>1.2.1 Definitions</b>	<b>1.2.1 Definitions</b>
<p>"Payment Item" means a cheque, official cheque, bank draft, central bank draft, agent's cheque, a payment message received through the LVTS, a payment message received through Fedwire, an instruction to a banker, <u>a paper-based or electronic payment item acceptable for clearing through the Automated Clearing Settlement System of the Canadian Payments Association</u>, or any other payment item, and includes an Acceptable Payment.</p>	<p>"Payment Item" means a cheque, official cheque, bank draft, central bank draft, agent's cheque, a payment message received through the LVTS, a payment message received through Fedwire, an instruction to a banker, a paper-based or electronic payment item acceptable for clearing through the Automated Clearing Settlement System of the Canadian Payments Association, or any other payment item, and includes an Acceptable Payment.</p>
<b>5.9.5 Defaulter's Obligation</b>	<b>5.9.5 Defaulter's Obligation</b>
<p>The obligation referred to in Rule 5.9.2 of a Defaulter is the total of all obligations to CDS arising from (i) any indemnity or Cross-Border Claim pursuant to Rule 10.2.10; or (ii) its participation in the Depository Service and the Settlement Service, including holding Securities in a Ledger, effecting Settlements, establishing Lines of Credit and making payment to CDS with respect to the Depository Service and the Settlement Service, except:</p> <p>(a) liabilities or obligations arising from its role as the ISIN Activator, Security Validator, Entitlements Processor or Custodian of a Security <u>(and for greater certainty, an obligation of a Defaulter to CDS evidenced by an entry made to its Funds Account shall not be considered to be a liability or obligation that is excluded pursuant to this paragraph (a));</u></p> <p>(b) any obligation in respect of which a Line of Credit under which the Defaulter is a Debtor has been used; or</p> <p>(c) any obligation guaranteed by the other Members of the Credit Ring for a Fund to which the Defaulter belongs.</p> <p>The obligation of a defaulter may be denominated in Canadian dollars or US dollars or in both. For Receivers (both RCP Receivers and Non-Contributing Receivers), the obligations of the Category Credit Ring for Canadian dollar settlements are separate from the obligations of the Category Credit Ring for US dollar settlements. For members of other Category Credit Rings, the aggregate obligation in all currencies is the Debtor's obligation.</p> <p>The Members of a Category Credit Ring acknowledge that the obligation of a Defaulter to CDS may exceed the System-Operating Cap of the Defaulter and the authorized amounts of Lines of Credit established for the Defaulter due to the making of forced entries by CDS pursuant to Rule 8.1.3 or to an indemnity or Cross-Border Claim pursuant to Rule 10.2.10.</p>	<p>The obligation referred to in Rule 5.9.2 of a Defaulter is the total of all obligations to CDS arising from (i) any indemnity or Cross-Border Claim pursuant to Rule 10.2.10; or (ii) its participation in the Depository Service and the Settlement Service, including holding Securities in a Ledger, effecting Settlements, establishing Lines of Credit and making payment to CDS with respect to the Depository Service and the Settlement Service, except:</p> <p>(a) liabilities or obligations arising from its role as the ISIN Activator, Security Validator, Entitlements Processor or Custodian of a Security (and for greater certainty, an obligation of a Defaulter to CDS evidenced by an entry made to its Funds Account shall not be considered to be a liability or obligation that is excluded pursuant to this paragraph (a));</p> <p>(b) any obligation in respect of which a Line of Credit under which the Defaulter is a Debtor has been used; or</p> <p>(c) any obligation guaranteed by the other Members of the Credit Ring for a Fund to which the Defaulter belongs.</p> <p>The obligation of a defaulter may be denominated in Canadian dollars or US dollars or in both. For Receivers (both RCP Receivers and Non-Contributing Receivers), the obligations of the Category Credit Ring for Canadian dollar settlements are separate from the obligations of the Category Credit Ring for US dollar settlements. For members of other Category Credit Rings, the aggregate obligation in all currencies is the Debtor's obligation.</p> <p>The Members of a Category Credit Ring acknowledge that the obligation of a Defaulter to CDS may exceed the System-Operating Cap of the Defaulter and the authorized amounts of Lines of Credit established for the Defaulter due to the making of forced entries by CDS pursuant to Rule 8.1.3 or to an indemnity or Cross-Border Claim pursuant to Rule 10.2.10.</p>

<p><b>6.6.4 Processing Distribution of Entitlements Payments</b></p> <p>Subject to Rule 6.6.8, <del>On</del> the distribution of an entitlement on a Security held for a Participant in the form of a payment of money, the amount of the entitlement is credited to the Funds Account of the CDS Entitlements Ledger:</p> <p>(a) <del>when the amount of the entitlement is debited from the Funds Account of Bank of Canada or of the Entitlement Processor for the Security; or</del></p> <p>(b) <del>when an Acceptable Payment with respect to the Security has been received by CDS.</del></p> <p>Then the proportionate amount of the entitlement due with respect to Securities held in the Participant's Ledger is debited from CDS's Entitlements Funds Account and credited to the Funds Account or Collateral Account for that Ledger (depending on the Account in which the Securities for which the entitlement is distributed are held), or, in the circumstances set out in the Procedures and User Guides, paid to the Participant by means of an Acceptable Payment.</p>	<p><b>6.6.4 Distribution of Entitlements Payments</b></p> <p>Subject to Rule 6.6.8, on the distribution of an entitlement on a Security held for a Participant in the form of a payment of money, the amount of the entitlement is credited to the Funds Account of the CDS Entitlements Ledger.</p> <p>Then the proportionate amount of the entitlement due with respect to Securities held in the Participant's Ledger is debited from CDS's Entitlements Funds Account and credited to the Funds Account or Collateral Account for that Ledger (depending on the Account in which the Securities for which the entitlement is distributed are held), or, in the circumstances set out in the Procedures and User Guides, paid to the Participant by means of an Acceptable Payment.</p>
<p><b>6.6.8 Crediting Processing of Ineligible Entitlement Payments</b></p> <p>(a) <u>Final Credits</u></p> <p><u>An entitlement payment may be credited to the Funds Account of the CDS Entitlements Ledger pursuant to Rule 6.6.4 if:</u></p> <p>(i) <u>the amount of the entitlement is debited, at the instruction of Bank of Canada or the Participant respectively, from the Funds Account of Bank of Canada or of another Participant acting in its capacity as the Issuer of the Security, the agent of the Issuer or the Entitlements Processor for the Security, for credit to the Funds Account of the CDS Entitlements Ledger; or</u></p> <p>(ii) <u>an Acceptable Payment in the amount of the entitlement is received by CDS from the issuer of the Security or its agent.</u></p> <p><del>(a) Separate Distribution</del> (b) <u>Provisional Credits</u></p> <p>If CDS receives a Payment Item <u>evidencing that is not an Acceptable Payment as an entitlement payment in a form other than that described in paragraph (a), the entitlement shall not be credited to the Funds Account of the CDS Entitlements Ledger pursuant to Rule 6.6.4 unless CDS has deposited or to the Accounts of Participants. If CDS is able to replace the Payment Item with its banker or with the financial institution on which the an Acceptable Payment Item is drawn and either:</u> <del>by</del></p>	<p><b>6.6.8 Crediting of Entitlement Payments</b></p> <p>(a) Final Credits</p> <p>An entitlement payment may be credited to the Funds Account of the CDS Entitlements Ledger pursuant to Rule 6.6.4 if:</p> <p>(i) the amount of the entitlement is debited , at the instruction of Bank of Canada or the Participant respectively, from the Funds Account of Bank of Canada or of another Participant acting in its capacity as the Issuer of the Security, the agent of the Issuer or the Entitlements Processor for the Security, for credit to the Funds Account of the CDS Entitlements Ledger; or</p> <p>(ii) an Acceptable Payment in the amount of the entitlement is received by CDS from the issuer of the Security or its agent.</p> <p>(b) Provisional Credits</p> <p>If CDS receives a Payment Item evidencing an entitlement payment in a form other than that described in paragraph (a), the entitlement shall not be credited to the Funds Account of the CDS Entitlements Ledger pursuant to Rule 6.6.4 unless CDS has deposited the Payment Item with its banker or with the financial institution on which the Payment Item is drawn and either:</p>

<p><del>taking the steps set out below, then such entitlement shall be so credited.</del></p> <p><del>(i) the amount of the entitlement is debited from the Funds Account of the banker or financial institution at its instruction for credit to the Funds Account of the CDS Entitlements Ledger; or</del></p> <p><del>(ii) the banker or financial institution has made an Acceptable Payment to CDS in the same amount.</del></p> <p><del>If following such deposit the Payment Item is not honoured for final value, then the respective rights of CDS and the banker or financial institution shall be determined under the appropriate law, and nothing in these Rules shall limit the rights of the banker or financial institution to make any claim against CDS in respect of the Payment Item. In such circumstances, CDS may take the steps set out in Rule 6.6.14 to reverse the corresponding entitlement with respect to each Participant to whom the entitlement was provisionally credited. In such event, Participants may take steps pursuant to Rule 6.9.1 to exercise their rights in respect of the Security on which the entitlement payment was made.</del></p> <p><del>(b) — Final Replacement by Acceptable Payment</del></p> <p><del>If the ineligible Payment Item is drawn by or on a Participant (including CDS's own banker), then at the request of CDS, upon the delivery of the Payment Item, such Participant shall either replace the Payment Item and make an Acceptable Payment to CDS in the amount of the Payment Item, or inform CDS that it will not replace the Payment Item and return the Payment Item to CDS. An Acceptable Payment made by a Participant in such circumstances is final and irrevocable in any circumstances, including the failure of the customer that drew the original Payment Item or any defect in the original Payment Item, and the Participant shall not make any claim against CDS in respect of the Payment Item.</del></p> <p><del>(c) — Contingent Replacement by Acceptable Payment</del></p> <p><del>If (i) the ineligible Payment Item is not drawn on a Participant, or (ii) the Payment Item is drawn on a Participant but it is not replaced as provided in paragraph (b), then CDS may deposit the Payment Item with its banker and request the banker to make an Acceptable Payment to CDS in the same amount. If the banker is unable to clear the Payment Item for final value, then the respective rights of CDS and the banker shall be determined under the appropriate law, and nothing in these Rules shall limit the rights of the banker to make any claim against CDS in respect of the un-cleared Payment Item. In such circumstances, CDS may take the steps set out in Rule 6.6.14 to reverse the corresponding entitlement credited to any Participant.</del></p>	<p>(i) the amount of the entitlement is debited from the Funds Account of the banker or financial institution at its instruction for credit to the Funds Account of the CDS Entitlements Ledger; or</p> <p>(ii) the banker or financial institution has made an Acceptable Payment to CDS in the same amount.</p> <p>If following such deposit the Payment Item is not honoured for final value, then the respective rights of CDS and the banker or financial institution shall be determined under the appropriate law, and nothing in these Rules shall limit the rights of the banker or financial institution to make any claim against CDS in respect of the Payment Item. In such circumstances, CDS may take the steps set out in Rule 6.6.14 to reverse the corresponding entitlement with respect to each Participant to whom the entitlement was provisionally credited. In such event, Participants may take steps pursuant to Rule 6.9.1 to exercise their rights in respect of the Security on which the entitlement payment was made.</p> <p>(c) Other Payments</p> <p>If CDS receives a Payment Item evidencing an entitlement payment in a form other than that described in paragraph (a) and is unable to process that Payment Item in accordance with paragraph (b), then CDS may:</p> <p>(i) credit the entitlement to the Funds Accounts of Participants at such time as the Payment Item has been honoured for final value, or</p> <p>(ii) distribute the entitlement to the Participants at any time by another means selected by CDS, or</p> <p>(iii) inform Participants that CDS will not distribute the entitlement and that they may take steps pursuant to Rule 6.9.1 to exercise their rights in respect of the Security on which the entitlement payment was made.</p>
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<p>(d)(c) <del>Other No Replacement by Acceptable Payments</del></p> <p>If CDS receives a <del>ineligible</del> Payment Item evidencing an <u>entitlement payment in a form other than that described in paragraph (a) and is unable to deposit that Payment Item in accordance with</u> <del>is not replaced as provided in paragraph (b) or paragraph (c), then the ineligible entitlement shall not be distributed to Participants on payable date by means of a credit to the Participants' Funds Account.</del>CDS may either:</p> <ul style="list-style-type: none"> <li>(i) credit the entitlement to the Funds Accounts of Participants at such time as the <del>ineligible</del> Payment Item has been <u>honoured</u> <del>cleared</del> for final value, or</li> <li><del>(ii) may distribute the ineligible entitlement to the Participants at any time by another means selected by CDS, or</del></li> <li><u>(iii) inform Participants that CDS will not distribute the entitlement and that they may take steps pursuant to Rule 6.9.1 to exercise their rights in respect of the Security on which the entitlement payment was made.</u></li> </ul>	
<p><b>6.6.9 Processing of Other Ineligible Entitlements</b></p> <p>If CDS receives a Security that is not eligible for the Depository Service as a distribution of an entitlement, that Security shall not be credited to the Entitlements Ledger or to the Accounts of Participants. If CDS receives any property, other than a Security or money, as a distribution of an entitlement, such property cannot be credited to the Entitlements Ledger or to the Accounts of Participants. Such ineligible entitlements may be distributed to the Participant by another means selected by CDS.</p>	<p><b>6.6.9 Processing of Ineligible Entitlements</b></p> <p>If CDS receives a Security that is not eligible for the Depository Service as a distribution of an entitlement, that Security shall not be credited to the Entitlements Ledger or to the Accounts of Participants. If CDS receives any property, other than a Security or money, as a distribution of an entitlement, such property cannot be credited to the Entitlements Ledger or to the Accounts of Participants. Such ineligible entitlements may be distributed to the Participant by another means selected by CDS.</p>