

13.1.2 CDS Notice of Request for Comments – Material Amendments to CDS Rules Relating to CCP Capping

THE CANADIAN DEPOSITORY FOR SECURITIES LIMITED (“CDS”)

MATERIAL AMENDMENTS TO CDS RULES CCP CAPPING

REQUEST FOR COMMENTS

DESCRIPTION OF THE PROPOSED AMENDMENTS

On November 23, 2005 the Board of Directors of The Canadian Depository for Securities Limited (“CDS”) approved amendments to Participant Rules which concern the central counterparty cap on total obligations incurred by Participants (the “CCP Cap”) using certain methods of processing trades within CDSX, such as continuous net settlement (“CNS”), DetNet, and ACCESS (“Functions”). The proposed amendments involve replacing the existing “hard” CCP Cap (which prevents the use of the Functions for new trades once certain thresholds are exceeded and defaults all of the Participant’s trades to settle on a trade-for-trade basis) with a “soft” CCP Cap (which permits a continued use of the Functions for new trades but requires additional collateral to be provided).

The proposed amendments involve replacing the existing “hard” CCP Cap on obligations with a “soft cap”. Under the existing Rules, once the threshold has been exceeded, a Participant will no longer be able to utilize any of the Functions and will default all subsequent trades which were supposed to settle on a trade-for-trade basis. The creation of this “soft cap” will allow Participants to continue to trade after the threshold has been reached as long as the Participant in question deposits additional collateral in their CDS collateral account. The “soft cap” will permit Participants to continue to use the Functions while also providing each Participant with an incentive to reduce outstanding positions. A reduction of outstanding positions will reduce the additional collateral that a Participant would need to provide.

NATURE AND PURPOSE OF THE PROPOSED AMENDMENTS

Background

In the process of implementing the CDS Internal Risk Management System in 2004, the extenders of credit Participants requested the implementation of a cap on the amount of risk that any central counterparty (“CCP”) Participant could create related to outstanding positions. As members of the Participant funds associated with the CCP services, the extenders of credit Participants required that there be a measurable limit on the losses they might have to share as survivors, in the event that a defaulter’s collateral contribution to the fund was insufficient. The Cap that was developed, with input from Participants, entailed the application of additional collateral and the restriction of netting of further trades in the CCP service following a breach of the Cap, which was set at CAD 80 million. In September of 2004, the Ontario Securities Commission (“OSC”) provided a temporary non-disapproval of the amendments establishing the “hard cap” but included an eighteen month sunset clause in relation to the non-disapproval, expiring on March 27, 2006. The OSC expressed a concern that the existing provisions result in a shifting of risk from CDS to the capital markets generally. This sunset clause was included to allow CDS staff to submit additional rule amendments for non-disapproval that does not increase the potential risk to the overall marketplace while also addressing the concerns of Participants.

Description of Proposed Amendments

Through the CCP Cap Working Group, the Risk Advisory Committee, and the Legal Drafting Group, an alternative “soft” CCP Capping methodology has been developed.

The proposed “soft” Cap approach imposes specific obligations upon Participants when that Participant’s CCP Contributions Total exceeds specific, defined thresholds. The proposed amendments provide that CDS will provide specific notice where the Participant’s CCP Contribution Total (as this term is defined in the CDS Participant Rules) exceeds the prescribed thresholds. In particular where a Participant’s CCP Contribution Total exceeds (1) 75% of the CCP Cap CDS shall notify the Participant, and the Appropriate Authority; and (2) 100% of the CCP Cap CDS shall notify the Participant, the Appropriate Authority and all other Participants using any of the CCP Functions used by the Participant. The term Appropriate Authority is defined in Rule 5.14.4 of the CDS Participant Rules. The proposed amendments also include a provision requiring CDS to notify the same persons when a Participant’s CCP Contributions Total is reduced below a specified threshold.

In addition the proposed amendments require Participants to take appropriate action to reduce their outstanding positions, subject to facing additional collateralization on the added risk on an escalating basis. At the 75% threshold, the Participant is required to advise CDS of the steps it will take to reduce its exposure. At the 100% and 150% thresholds, the Participant is required to provide additional collateral to secure its obligations to CDS. In the event that a Participant is suspended and does not meet its obligations under a central counterparty Function, the additional collateral will be applied to meet the shortfall in

each Function. In determining the collateral requirements measured against the CCP Cap, only the portion relating to outstanding positions in a CCP Function is considered (mark-to-market contributions, for example, are excluded).

Purpose of the Proposed Amendments

The proposed "soft" Cap will address the concerns of some Participants by permitting Participants to continue to use the Functions while also providing each Participant with an incentive to reduce outstanding positions. A reduction of outstanding positions will reduce the additional collateral that a Participant would need to provide. These specific obligations would address concerns expressed by the OSC by no longer requiring subsequent trades of a Participant that has breached the Cap to be cleared on a trade-for-trade basis.

After considering alternatives, it was determined that it was appropriate to set a single CCP Cap amount for all Participants, and to leave the CCP Cap at its current level. The actual amount of the CCP Cap is set out in the procedures and will be subject to amendment from time to time. The alternative of applying a different cap level for each Participant, based on a measure of each Participant's capital, was investigated and rejected due to the variations in the calculation of capital for different types of Participants. The CCP Cap amount is regularly reviewed in relation to levels of activity in the CCP Functions. The outstanding contributions made by each Participant to all funds for the Functions will be compared to the Cap. Action will be taken when certain thresholds are exceeded. Notice will be given to the Participant and its regulator. At certain thresholds, notice will also be given to other Participants using the Functions.

Application of Proposed Amendments

In CDSX, eligible trades may be processed before settlement through a CCP Function. This processing affects the novation and netting of the payment and delivery obligations pursuant to a securities transaction between Participants to create CCP obligations to be settled between each Participant and CDS. CDS must ensure that it can close out the outstanding CCP positions of any Participant who may default, as CDS has a continuing obligation to settle CCP obligations with all Participants notwithstanding the default of one Participant with an offsetting CCP obligation. In order to control the risks of CCP Functions, CCP obligations are marked-to-market, each Participant using a CCP Function contributes collateral to a fund for that Function, and all the Participants using a CCP Function provide a joint and several credit ring guarantee to CDS. Participants using a CCP Function may limit their exposure by withdrawing from that Function following the suspension of another Participant.

The procedures for providing collateral to CDS are well established. Participants who provide the required additional collateral will be permitted to continue to use the CCP Functions. A Participant who does not provide the required collateral for the CCP Function (like any other Participant who does not meet its collateral requirements in a timely fashion) will be suspended from CDSX.

If a Participant defaults in its obligations to CDS and is suspended, then its collateral is used to meet its obligations to CDS. The additional collateral contributed under the proposed CCP soft Cap model is used first to meet the shortfall in all CCP Functions between the Participant's obligations in each Function and its contributions to the fund for that Function (Rule 9.3.12). The special CCP collateral is distributed among the Functions in proportion to the amount of the shortfall in each Function. If the CCP collateral is more than is required to meet all of the shortfalls in all of the CCP Functions, the excess is applied to other obligations owed by the suspended Participant to CDS (Rule 9.3.13).

The principal Rule amendments are those to Rule 5.14 - CCP Cap for CCP Functions, and Rule 9.3 - Collateral. As the soft Cap model creates a new type of collateral in CDSX, a new defined term has been added (CCP Collateral), and a large number of minor Rule amendments are proposed to integrate the CCP Collateral into the CDSX Rules governing the granting of a security interest, the holding of collateral by CDS and the realization and application of the collateral upon the suspension of the Participant.

IMPACT OF THE PROPOSED AMENDMENTS

The proposed amendments represent an effort on the part of CDS to balance the concerns of certain Participants relating to potential unlimited liability faced by such Participants where other Participants utilize CCP Functions and concerns that the current "hard" cap would result in a shifting of risk from CDS Participants to the capital markets generally. Critics of the "hard" cap have expressed a concern that the inability to settle trades utilizing CCP Functions will create situations where the parties to a trade will be forced to settle in trade-for-trade where parties will be unable to manage their risk exposure effectively. As previously indicated, the proposed amendments permit Participants to continue to use the Functions while also providing each Participant whose CCP Contributions Total exceeds specific, defined thresholds with an incentive to reduce outstanding positions and providing other Participants utilizing CCP Function with notice of potential problems. A reduction of outstanding positions will reduce the additional collateral that a Participant would need to provide. These specific obligations would address concerns expressed by the OSC by no longer requiring subsequent trades of a Participant that has breached the Cap to be cleared on a trade-for-trade basis. As a result, the risk mitigants employed by CDS for the CCP Functions (daily mark-to-market

and collateralization) would continue to protect surviving CCP service members for trades reaching settlement after reaching the CCP Cap.

Participants will be able to utilize CCP Functions even where the CCP Cap has been exceeded. Upon reaching specified thresholds Participants will be required to provide additional prescribed collateral, CCP Collateral. The obligation of a Participant to provide CCP Collateral is separate and distinct from an obligation to provide collateral for other purposes within CDSX. Thus a Participant's collateral contribution to a fund for a CCP Function is not reduced because the Participant is also required to provide CCP collateral. Nor does CCP Collateral affect the calculation of the amount of collateral that a Participant must provide if it exercises its option to withdraw from a CCP Function after the suspension of another Participant. In addition, a Participant's proportionate share of a defaulting Participant's shortfall under a credit ring obligation is not affected when the Participant or another Participant provides CCP Collateral. In CNS, for instance, the proportionate share of each credit ring survivor is calculated based on the contributions to the fund for CNS, which do not include the CCP Collateral. CCP Collateral that was provided by a defaulting Participant will reduce the shortfall to be covered by the surviving Participants' credit ring.

In determining the level of the CCP Cap, historical risk levels were reviewed. In no case did any Participant exceed 50% of the CCP Cap and in the vast majority of daily measurements, the utilisation of the cap was a very small fraction of the \$80 million cap. This indicates that the CCP Cap should not negatively impact Participants use of CDS's CCP services.

DESCRIPTION OF THE RULE DRAFTING PROCESS

CDS is recognized as a clearing agency by the Ontario Securities Commission and 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 January 3, 2006 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

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

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

COMPARATIVE ANALYSIS

In the course of preparing the proposed rule amendments CDS staff conducted a review of comparable regulatory regimes in other jurisdictions, including the United States model. In conducting the review, CDS staff did not find that other clearing agencies had a CCP Cap or similar protection for their participants.

The international standards most applicable to the amendment are those described in the BIS/IOSCO Recommendations for Central Counterparties. While those recommendations describe the need to facilitate the obligations of the largest single defaulter, among other recommendations, there is no specific requirement for a predetermined limit on the risk created by Participants. The recommendations do require that a CCP rigorously control risks, specifically with respect to the daily measurement and management of credit exposures and the application of risk-based collateral requirements. The use of a CCP Cap requiring additional collateral above established thresholds is consistent with these international standards.

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
85 Richmond Street West
Toronto, Ontario M5H 2C9

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

TOOMAS MARLEY
VICE-PRESIDENT, LEGAL AND CORPORATE SECRETARY

APPENDIX "A"
PROPOSED RULE AMENDMENT

Text of CDS Participant Rules marked to reflect proposed amendments	Text CDS Participant Rules reflecting the adoption of proposed amendments
<p>1.2.1 Definitions</p> <p>For the purposes of the Legal Documents, unless otherwise specified:</p> <p>...</p> <p>"CCP Cap" means at the threshold amount with respect to limit on a Participant's use of the CCP Functions that if exceeded requires the pledging of CCP Collateral, which threshold amount limit is established in accordance with Rule 5.14. (plafond de la contrepartie centrale)</p> <p><u>"CCP Collateral" means CCP Collateral as the term is defined in Rule 5.2.4. (garantie de la contrepartie centrale)</u></p> <p>"Collateral" means, with respect to a suspended Participant:</p> <ul style="list-style-type: none"> (i) its Contributions to a Collateral Pool; (ii) its Contributions to a Fund; (iii) its Settlement Service Collateral; and (iv) its Specific Collateral; <u>and</u> <u>(v) its CCP Collateral.</u> <p><u>(garantie)</u></p> <p>"Defaulter's Collateral" means a Defaulter's Fund Contributions, Collateral Pool Contributions, Specific Collateral, <u>CCP Collateral</u>, Settlement Service Collateral, and Category Credit Ring Collateral (including Settlement Service Collateral and Collateral Pool Contributions). (garantie d'un adhérent défaillant)</p>	<p>1.2.1 Definitions</p> <p>For the purposes of the Legal Documents, unless otherwise specified:</p> <p>...</p> <p>CCP Cap" means the threshold amount with respect to the CCP Functions that if exceeded requires the pledging of CCP Collateral, which threshold amount is established in accordance with Rule 5.14. (plafond de la contrepartie centrale)</p> <p>"CCP Collateral" means CCP Collateral as the term is defined in Rule 5.2.4. (garantie de la contrepartie centrale)</p> <p>"Collateral" means, with respect to a suspended Participant:</p> <ul style="list-style-type: none"> (i) its Contributions to a Collateral Pool; (ii) its Contributions to a Fund; (iii) its Settlement Service Collateral; (iv) its Specific Collateral; and (v) its CCP Collateral. <p>(garantie)</p> <p>"Defaulter's Collateral" means a Defaulter's Fund Contributions, Collateral Pool Contributions, Specific Collateral, CCP Collateral, Settlement Service Collateral, and Category Credit Ring Collateral (including Settlement Service Collateral and Collateral Pool Contributions). (garantie d'un adhérent défaillant)</p>
<p>1.3.10 CDS Accounts at Bank of Canada</p> <p>Bank of Canada has designated CDSX as a clearing and settlement system under Part I of the <i>Payment Clearing and Settlement Act</i> of Canada, pursuant to section 4(1) of the Act. The Rules shall be interpreted so as to ensure that CDSX is accorded the protections afforded to a designated clearing and settlement system under the Act, including sections 8(1)c and 8(2). To that end, CDS shall establish and operate one or more accounts at Bank of Canada for the exclusive purpose of receiving and disbursing payments to or from CDS, which arise from the operations of CDSX and which are denominated in Dollars. CDS may also establish and operate one or more accounts at Bank of Canada for the purpose of holding payments made to CDS by Participants, which are held by CDS as Fund Contributions, Collateral Pool Contributions, <u>CCP Collateral</u>, or Specific Collateral and which are denominated in Dollars. Fees and charges owing to CDS shall not be deposited to any account of CDS at Bank of Canada, and banking fees</p>	<p>1.3.10 CDS Accounts at Bank of Canada</p> <p>Bank of Canada has designated CDSX as a clearing and settlement system under Part I of the <i>Payment Clearing and Settlement Act</i> of Canada, pursuant to section 4(1) of the Act. The Rules shall be interpreted so as to ensure that CDSX is accorded the protections afforded to a designated clearing and settlement system under the Act, including sections 8(1)c and 8(2). To that end, CDS shall establish and operate one or more accounts at Bank of Canada for the exclusive purpose of receiving and disbursing payments to or from CDS, which arise from the operations of CDSX and which are denominated in Dollars. CDS may also establish and operate one or more accounts at Bank of Canada for the purpose of holding payments made to CDS by Participants, which are held by CDS as Fund Contributions, Collateral Pool Contributions, CCP Collateral, or Specific Collateral and which are denominated in Dollars. Fees and charges owing to CDS shall not be deposited to any account of CDS at Bank of Canada, and banking fees</p>

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and charges owing to Bank of Canada shall not be deducted or paid from any such account.	and charges owing to Bank of Canada shall not be deducted or paid from any such account.
<p>5.1.1 General Description</p> <p>CDS employs a variety of mechanisms to manage the risk of a default by a Participant in the Services. Such mechanisms include: ...</p> <p>(c) the taking of a security interest in collateral charged by Participants, including Specific Collateral, <u>CCP Collateral</u>, Cross-Border Specific Collateral, Settlement Service Collateral, Fund Contributions, Link Fund Contributions and Collateral Pool Contributions; ...</p>	<p>5.1.1 General Description</p> <p>CDS employs a variety of mechanisms to manage the risk of a default by a Participant in the Services. Such mechanisms include: ...</p> <p>(c) the taking of a security interest in collateral charged by Participants, including Specific Collateral, CCP Collateral, Cross-Border Specific Collateral, Settlement Service Collateral, Fund Contributions, Link Fund Contributions and Collateral Pool Contributions; ...</p>
<p>5.1.3 Monitoring of Participants</p> <p>In order to measure potential risks to CDS and the Services, CDS shall monitor the Transactions, Settlement obligations and activity in the system of that Participant. Acting in good faith and in accordance with the Rules, CDS shall take steps to ensure the due performance by the Participant of its obligations to CDS ... The steps CDS may take include: ...</p> <p>(b) requiring the Participant to grant to CDS a security interest in Specific Collateral, <u>CCP Collateral</u>, or Cross-Border Specific Collateral pursuant to Rules 5.2.3, <u>5.14.3</u>, or 10.6.3; ...</p>	<p>5.1.3 Monitoring of Participants</p> <p>In order to measure potential risks to CDS and the Services, CDS shall monitor the Transactions, Settlement obligations and activity in the system of that Participant. Acting in good faith and in accordance with the Rules, CDS shall take steps to ensure the due performance by the Participant of its obligations to CDS ... The steps CDS may take include: ...</p> <p>(b) requiring the Participant to grant to CDS a security interest in Specific Collateral, CCP Collateral, or Cross-Border Specific Collateral pursuant to Rules 5.2.3, 5.14.3, or 10.6.3; ...</p>
<p>5.1.4 Right of Retention and Right of Set Off</p> <p>CDS has the right to retain money standing to the credit of any Participant with CDS (including any amounts contributed as Funds Contributions, Collateral Pool Contributions, <u>CCP Collateral</u>, or Specific Collateral) or payable by CDS to the Participant or in any Account maintained by CDS for the Participant (including any funds credited to its Funds Accounts, any funds credited to its Restricted Collateral Accounts, (subject to the right of the Pledgor to redeem such funds), and any funds reflected in its Pledge Accounts that were Pledged by it (to the extent of the Participant's beneficial interest therein)), in full or part payment of all obligations arising under the Rules that are due and payable by the Participant to CDS, whether such obligations arise from the Service in respect of which the money is held or for which the Account is maintained, or otherwise. CDS has the right to set off a positive Funds Account balance in any Ledger maintained by CDS for a Participant against a negative Funds Account balance in any Ledger maintained by CDS for that Participant or against any obligations arising under the Rules that are due and payable by the Participant to CDS. CDS may exercise its rights of retention and set off regardless of the currencies in which any money, obligation or Funds Account balance may be denominated.</p>	<p>5.1.4 Right of Retention and Right of Set Off</p> <p>CDS has the right to retain money standing to the credit of any Participant with CDS (including any amounts contributed as Funds Contributions, Collateral Pool Contributions, CCP Collateral, or Specific Collateral) or payable by CDS to the Participant or in any Account maintained by CDS for the Participant (including any funds credited to its Funds Accounts, any funds credited to its Restricted Collateral Accounts, (subject to the right of the Pledgor to redeem such funds), and any funds reflected in its Pledge Accounts that were Pledged by it (to the extent of the Participant's beneficial interest therein)), in full or part payment of all obligations arising under the Rules that are due and payable by the Participant to CDS, whether such obligations arise from the Service in respect of which the money is held or for which the Account is maintained, or otherwise. CDS has the right to set off a positive Funds Account balance in any Ledger maintained by CDS for a Participant against a negative Funds Account balance in any Ledger maintained by CDS for that Participant or against any obligations arising under the Rules that are due and payable by the Participant to CDS. CDS may exercise its rights of retention and set off regardless of the currencies in which any money, obligation or Funds Account balance may be denominated.</p>
<p>5.2.1 Description of Security Interests</p> <p>As more particularly described in this Rule 5 and in Rule 10, each Participant creates security interests in a variety of collateral: ...</p>	<p>5.2.1 Description of Security Interests</p> <p>As more particularly described in this Rule 5 and in Rule 10, each Participant creates security interests in a variety of collateral: ...</p>

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<p>(d) Specific Collateral, <u>CCP Collateral</u>, and Cross-Border Specific Collateral</p> <p>Each Participant may from time to time create a security interest in Specific Collateral, <u>CCP Collateral</u>, or Cross-Border Specific Collateral in favour of CDS.</p>	<p>(d) Specific Collateral, CCP Collateral, and Cross-Border Specific Collateral</p> <p>Each Participant may from time to time create a security interest in Specific Collateral, CCP Collateral, or Cross-Border Specific Collateral in favour of CDS.</p>
<p>5.2.2 CDS's Security Interests</p> <p>Pursuant to Rules 5.2.2, 5.2.3, 5.8.5, 5.11.2, and 10.6.1, each Participant grants a security interest (the "CDS Security Interests") to CDS in, and pledges, charges and assigns to CDS, its Specific Collateral, <u>CCP Collateral</u>, Settlement Service Collateral, Fund Contributions, Collateral Pool Contributions, Category Credit Ring Collateral and Cross-Border Collateral, and all dividends, interest, amounts due on maturity, principal repayments and all other entitlements and proceeds arising with respect to such collateral. While the grant of the security interest in the particular collateral is described under different Rules, each security interest in favour of CDS secures the due payment of all amounts due under the Rules from time to time to CDS from the Participant and the performance of all obligations of the Participant to CDS arising from time to time under the Rules. In addition, pursuant to Rule 5.11.2, to secure the due payment of all amounts due under Rule 5.11.1 to the Survivors of its Category Credit Ring in the event that it becomes a Defaulter, each Extender grants a security interest (the "Extenders' Security Interest) to CDS as the bare nominee of the other Extenders in, and pledges, charges and assigns to CDS as the bare nominee of the other Extenders, its Category Credit Ring Collateral. In addition, pursuant to Rule 5.6.2, to secure payment of its obligations pursuant to Rule 5.6.1, each Debtor grants a Surety Security Interest in all of its Settlement Service Collateral to each Surety who establishes a Line of Credit for it and to the other Members of that Surety's Category Credit Ring.</p> <p>Each Participant represents and warrants to CDS, to the other Members of each Fund of which it is a Member, and to the other Members of its Category Credit Ring or Rings, that it has full authority and power to grant such security interests to CDS, including any exemption or authorization that may be required pursuant to any statute or regulation binding on the Participant. Such security interests shall survive the suspension, termination or withdrawal of the Participant. Upon suspension of the Participant in the payment or performance of any obligation to CDS, CDS may realize upon the collateral charged pursuant to such security interests for such price and upon such terms as it deems best, without notice or other prior indication to the Participant.</p> <p>Collateral delivered to CDS by the Participant under all of the security interests is administered through the Collateral Administration Ledger of CDS used for that Participant. Other Participants may also have an interest in the collateral charged to CDS; the relative priorities in the collateral are defined in Rule 5.6.7, Rule 5.11.2 and Rule 5.11.4. The</p>	<p>5.2.2 CDS's Security Interests</p> <p>Pursuant to Rules 5.2.2, 5.2.3, 5.8.5, 5.11.2, and 10.6.1, each Participant grants a security interest (the "CDS Security Interests") to CDS in, and pledges, charges and assigns to CDS, its Specific Collateral, CCP Collateral, Settlement Service Collateral, Fund Contributions, Collateral Pool Contributions, Category Credit Ring Collateral and Cross-Border Collateral, and all dividends, interest, amounts due on maturity, principal repayments and all other entitlements and proceeds arising with respect to such collateral. While the grant of the security interest in the particular collateral is described under different Rules, each security interest in favour of CDS secures the due payment of all amounts due under the Rules from time to time to CDS from the Participant and the performance of all obligations of the Participant to CDS arising from time to time under the Rules. 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In addition, pursuant to Rule 5.6.2, to secure payment of its obligations pursuant to Rule 5.6.1, each Debtor grants a Surety Security Interest in all of its Settlement Service Collateral to each Surety who establishes a Line of Credit for it and to the other Members of that Surety's Category Credit Ring.</p> <p>Each Participant represents and warrants to CDS, to the other Members of each Fund of which it is a Member, and to the other Members of its Category Credit Ring or Rings, that it has full authority and power to grant such security interests to CDS, including any exemption or authorization that may be required pursuant to any statute or regulation binding on the Participant. Such security interests shall survive the suspension, termination or withdrawal of the Participant. Upon suspension of the Participant in the payment or performance of any obligation to CDS, CDS may realize upon the collateral charged pursuant to such security interests for such price and upon such terms as it deems best, without notice or other prior indication to the Participant.</p> <p>Collateral delivered to CDS by the Participant under all of the security interests is administered through the Collateral Administration Ledger of CDS used for that Participant. Other Participants may also have an interest in the collateral charged to CDS; the relative priorities in the collateral are defined in Rule 5.6.7, Rule 5.11.2 and Rule 5.11.4. The</p>

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distribution of the collateral upon suspension of the Participant is set out in Rule 9.	distribution of the collateral upon suspension of the Participant is set out in Rule 9.
<p>5.2.3 Security Interest in Specific Collateral and CCP Collateral</p> <p>From time to time, CDS may request a Participant to grant to CDS a security interest in Specific Collateral or <u>CCP Collateral</u> of a specified value. CDS may make such request <u>with respect to Specific Collateral</u> when it determines, in its absolute discretion, that such security interest is prudent to ensure the due discharge of the Participant's obligations to CDS, including an obligation arising from the Participant's acting as an Entitlements Processor or otherwise arising from payments made on or drawn on the Participant, the obligation of the Participant to correct a Short Position and the obligations of the Participant monitored pursuant to Rule 5.1.3. <u>CDS may make such request with respect to CCP Collateral pursuant to Rule 5.14.</u> By delivering Specific Collateral or <u>CCP Collateral</u> to CDS or authorizing CDS to take possession or control of Specific Collateral or <u>CCP Collateral</u>, each Participant grants to CDS a security interest in, and pledges, charges and assigns to CDS, all such Specific Collateral or <u>CCP Collateral</u> together with all dividends, interest, amounts due on maturity, principal repayments and all other entitlements and proceeds arising with respect to such Specific Collateral or <u>CCP Collateral</u> to secure the due payment of all amounts due under the Rules from time to time to CDS from the Participant and the performance of all obligations of the Participant to CDS arising from time to time under the Rules. The security interest, pledge, charge and assignment created by this Rule 5.2.2 shall survive the suspension, termination or withdrawal of the Participant.</p>	<p>5.2.3 Security Interest in Specific Collateral and CCP Collateral</p> <p>From time to time, CDS may request a Participant to grant to CDS a security interest in Specific Collateral or CCP Collateral of a specified value. CDS may make such request with respect to Specific Collateral when it determines, in its absolute discretion, that such security interest is prudent to ensure the due discharge of the Participant's obligations to CDS, including an obligation arising from the Participant's acting as an Entitlements Processor or otherwise arising from payments made on or drawn on the Participant, the obligation of the Participant to correct a Short Position and the obligations of the Participant monitored pursuant to Rule 5.1.3. CDS may make such request with respect to CCP Collateral pursuant to Rule 5.14. By delivering Specific Collateral or CCP Collateral to CDS or authorizing CDS to take possession or control of Specific Collateral or CCP Collateral, each Participant grants to CDS a security interest in, and pledges, charges and assigns to CDS, all such Specific Collateral or CCP Collateral together with all dividends, interest, amounts due on maturity, principal repayments and all other entitlements and proceeds arising with respect to such Specific Collateral or CCP Collateral to secure the due payment of all amounts due under the Rules from time to time to CDS from the Participant and the performance of all obligations of the Participant to CDS arising from time to time under the Rules. The security interest, pledge, charge and assignment created by this Rule 5.2.2 shall survive the suspension, termination or withdrawal of the Participant.</p>
<p>5.2.4 Definition of Specific Collateral and CCP Collateral</p> <p>The term "Specific Collateral" means the property and assets, which a Participant delivers to CDS, or of which a Participant authorizes CDS to take possession or control, pursuant to Rule 5.2.3, and does not include Settlement Service Collateral, Fund Contributions, or Collateral Pool Contributions or <u>CCP Collateral</u>. <u>The term "CCP Collateral" means the property and assets, which a Participant delivers to CDS, or of which a Participant authorizes CDS to take possession or control, for the purpose of granting a security interest to CDS, pursuant to Rule 5.14.3, and does not include Settlement Service Collateral, Fund Contributions, Collateral Pool Contributions or Specific Collateral.</u></p>	<p>5.2.4 Definition of Specific Collateral and CCP Collateral</p> <p>The term "Specific Collateral" means the property and assets, which a Participant delivers to CDS, or of which a Participant authorizes CDS to take possession or control, pursuant to Rule 5.2.3, and does not include Settlement Service Collateral, Fund Contributions, Collateral Pool Contributions or CCP Collateral. The term "CCP Collateral" means the property and assets, which a Participant delivers to CDS, or of which a Participant authorizes CDS to take possession or control, for the purpose of granting a security interest to CDS, pursuant to Rule 5.14.3, and does not include Settlement Service Collateral, Fund Contributions, Collateral Pool Contributions or Specific Collateral.</p>
<p>5.3.1 Form and Value of Collateral</p> <p>The collateral pledged by a Participant as Specific Collateral, <u>CCP Collateral</u>, Fund Contributions and Collateral Pool Contributions shall be: ... The recognized value of collateral charged by a Participant as Specific Collateral, <u>CCP Collateral</u>, a Fund Contribution or a Collateral Pool Contribution shall be the fair market value of the collateral as determined in accordance with the Procedures and User Guides, which shall set out any</p>	<p>5.3.1 Form and Value of Collateral</p> <p>The collateral pledged by a Participant as Specific Collateral, CCP Collateral, Fund Contributions and Collateral Pool Contributions shall be: ... The recognized value of collateral charged by a Participant as Specific Collateral, CCP Collateral, a Fund Contribution or a Collateral Pool Contribution shall be the fair market value of the collateral as determined in accordance with the Procedures and User Guides, which shall set out any</p>

Text of CDS Participant Rules marked to reflect proposed amendments	Text CDS Participant Rules reflecting the adoption of proposed amendments
margin requirements that apply to a particular type of collateral. ...	margin requirements that apply to a particular type of collateral. ...
<p>5.3.2 Collateral Administration Ledgers</p> <p>CDS maintains Collateral Administration Ledgers for the management and control of collateral held by it for the purposes of this Rule 5, including Specific Collateral, <u>CCP Collateral</u>, Fund Contributions and Collateral Pool Contributions, and, after suspension, Settlement Service Collateral. The Collateral Administration Ledgers shall be Ledgers maintained by CDS in its own name. A separate Collateral Administration Ledger is designated by CDS to be used for each Participant. Specific Collateral <u>and CCP Collateral</u> pledged by a Participant, and Fund Contributions and Collateral Pool Contributions made by a Participant, shall be credited to the Collateral Administration Ledger used for that Participant. ...</p>	<p>5.3.2 Collateral Administration Ledgers</p> <p>CDS maintains Collateral Administration Ledgers for the management and control of collateral held by it for the purposes of this Rule 5, including Specific Collateral, CCP Collateral, Fund Contributions and Collateral Pool Contributions, and, after suspension, Settlement Service Collateral. The Collateral Administration Ledgers shall be Ledgers maintained by CDS in its own name. A separate Collateral Administration Ledger is designated by CDS to be used for each Participant. Specific Collateral and CCP Collateral pledged by a Participant, and Fund Contributions and Collateral Pool Contributions made by a Participant, shall be credited to the Collateral Administration Ledger used for that Participant. ...</p>
<p>5.3.3 Centralized Administration of Collateral</p> <p>A Participant grants a security interest in its Specific Collateral, <u>in its CCP Collateral</u>, in its Settlement Service Collateral, in its Contributions to each Fund of which it is a Member and in its Contributions to each Collateral Pool for each Category Credit Ring of which it is a Member (other than the Non-Contributing Receivers Credit Ring). Each security interest is separately defined in individual Rules, including matters such as the calculation of the Contribution to be made, the obligation secured by the security interest, the attachment and release of the security interest, the persons to whom the security interest is granted, and the relative priority of the security interest in particular collateral. For convenience and efficient management, in the circumstances set out in the Procedures and User Guides, a Participant may make a single delivery of collateral to fulfill in whole or in part one or more of its obligations with respect to Specific Collateral, <u>CCP Collateral</u>, or Contributions to a Fund or Collateral Pool. CDS may hold all such collateral in its Collateral Administration Ledger, as set out below, and may mingle in a single account the collateral charged by a Participant in respect of one security interest with any other collateral charged at any time by that Participant in respect of other security interests. CDS determines from time to time how the collateral charged by a Participant shall be attributed to any specific security interest. In the event that any collateral charged by a Participant is discovered to be a Defective Security or otherwise to have less market value than anticipated, such diminution in value of the collateral shall be attributed pro rata to any Specific Collateral charged by the Participant, <u>to any CCP Collateral charged by the Participant</u>, and to each Fund and Collateral Pool to which the Participant was required to contribute, in the proportion which the amount of the collateral required for that purpose is of all required collateral. Upon suspension of a Participant, the collateral charged by it is dealt with in accordance with Rule 9. All collateral is held by CDS on the following basis:</p> <p>(a) Specific Collateral <u>and CCP Collateral</u></p>	<p>5.3.3 Centralized Administration of Collateral</p> <p>A Participant grants a security interest in its Specific Collateral, in its CCP Collateral, in its Settlement Service Collateral, in its Contributions to each Fund of which it is a Member and in its Contributions to each Collateral Pool for each Category Credit Ring of which it is a Member (other than the Non-Contributing Receivers Credit Ring). Each security interest is separately defined in individual Rules, including matters such as the calculation of the Contribution to be made, the obligation secured by the security interest, the attachment and release of the security interest, the persons to whom the security interest is granted, and the relative priority of the security interest in particular collateral. For convenience and efficient management, in the circumstances set out in the Procedures and User Guides, a Participant may make a single delivery of collateral to fulfill in whole or in part one or more of its obligations with respect to Specific Collateral, CCP Collateral, or Contributions to a Fund or Collateral Pool. CDS may hold all such collateral in its Collateral Administration Ledger, as set out below, and may mingle in a single account the collateral charged by a Participant in respect of one security interest with any other collateral charged at any time by that Participant in respect of other security interests. CDS determines from time to time how the collateral charged by a Participant shall be attributed to any specific security interest. In the event that any collateral charged by a Participant is discovered to be a Defective Security or otherwise to have less market value than anticipated, such diminution in value of the collateral shall be attributed pro rata to any Specific Collateral charged by the Participant, to any CCP Collateral charged by the Participant, and to each Fund and Collateral Pool to which the Participant was required to contribute, in the proportion which the amount of the collateral required for that purpose is of all required collateral. Upon suspension of a Participant, the collateral charged by it is dealt with in accordance with Rule 9. All collateral is held by CDS on the following basis:</p> <p>(a) Specific Collateral and CCP Collateral</p>

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<p>Specific Collateral and CCP Collateral shall be credited to CDS's Collateral Administration Ledgers to be held by CDS for its own benefit exclusively. ...</p>	<p>Specific Collateral and CCP Collateral shall be credited to CDS's Collateral Administration Ledgers to be held by CDS for its own benefit exclusively. ...</p>
<p>5.3.6 Custody of Collateral</p> <p>In exercising any of the powers conferred by this Rule 5.3, CDS shall take reasonable care in what it, in good faith, considers to be necessary to protect the interests of CDS and to be in the best interest of all Participants other than a Defaulter. CDS shall not be the agent, trustee or fiduciary (i) for a Participant in respect of its own Specific Collateral, <u>CCP Collateral</u>, Fund Contributions, Collateral Pool Contributions or Settlement Service Collateral, nor (ii) for any other Category Credit Ring Member (except to the extent that it acts as the bare nominee of the Survivors of a suspended Extender) in respect of its interest in the Category Credit Ring Collateral of a Defaulter. Collateral in the form of money shall be held by CDS in accordance with this Rule 5.3 and need not be applied to reduce any obligation of the Participant to CDS. CDS may invest Specific Collateral, <u>CCP Collateral</u>, Fund Contributions or Collateral Pool Contributions in a reasonable and prudent manner, acting in the best interests of all Participants. CDS shall segregate any such collateral from its own money and shall make use of such collateral only for the purposes of this Rule 5. The net amount of any interest, dividend or income received by CDS on the collateral of a Participant (other than minimum cash contributions) shall be distributed to the Participant in accordance with the Procedures, provided the Participant's obligations to CDS have been fulfilled. In exercising any of the foregoing powers, CDS shall take reasonable care in what it, in good faith, considers to be necessary to protect the interests of CDS and to be in the best interest of all Participants making use of the Services.</p>	<p>5.3.6 Custody of Collateral</p> <p>In exercising any of the powers conferred by this Rule 5.3, CDS shall take reasonable care in what it, in good faith, considers to be necessary to protect the interests of CDS and to be in the best interest of all Participants other than a Defaulter. CDS shall not be the agent, trustee or fiduciary (i) for a Participant in respect of its own Specific Collateral, CCP Collateral, Fund Contributions, Collateral Pool Contributions or Settlement Service Collateral, nor (ii) for any other Category Credit Ring Member (except to the extent that it acts as the bare nominee of the Survivors of a suspended Extender) in respect of its interest in the Category Credit Ring Collateral of a Defaulter. Collateral in the form of money shall be held by CDS in accordance with this Rule 5.3 and need not be applied to reduce any obligation of the Participant to CDS. CDS may invest Specific Collateral, CCP Collateral, Fund Contributions or Collateral Pool Contributions in a reasonable and prudent manner, acting in the best interests of all Participants. CDS shall segregate any such collateral from its own money and shall make use of such collateral only for the purposes of this Rule 5. The net amount of any interest, dividend or income received by CDS on the collateral of a Participant (other than minimum cash contributions) shall be distributed to the Participant in accordance with the Procedures, provided the Participant's obligations to CDS have been fulfilled. In exercising any of the foregoing powers, CDS shall take reasonable care in what it, in good faith, considers to be necessary to protect the interests of CDS and to be in the best interest of all Participants making use of the Services.</p>
<p>5.3.7 Assignment of Collateral by CDS</p> <p>CDS may, in favour of any Person, assign, transfer, pledge, charge or otherwise create a security interest in:</p> <p>(a) any Specific Collateral, <u>CCP Collateral</u>, Settlement Service Collateral, Fund Contribution, Collateral Pool Contribution or Category Credit Ring Collateral, ...</p>	<p>5.3.7 Assignment of Collateral by CDS</p> <p>CDS may, in favour of any Person, assign, transfer, pledge, charge or otherwise create a security interest in:</p> <p>(a) any Specific Collateral, CCP Collateral, Settlement Service Collateral, Fund Contribution, Collateral Pool Contribution or Category Credit Ring Collateral, ...</p>
<p>5.14 CCP CAP FOR CCP FUNCTIONS</p> <p>5.14.1 Calculation of CCP Cap</p> <p>The "CCP Cap" is a limit on a Participant's <u>means a threshold amount with respect to use of the CCP Functions that if exceeded requires the pledging of CCP Collateral, which threshold amount is established in accordance with this Rule 5.14.</u> The amount of the CCP Cap shall be the same for all Participants, regardless of the category in which the Participant is classified and regardless of the number of CCP Functions used by the Participant. The amount of the CCP Cap shall be set out in the Procedures. The CCP Cap shall be reviewed on the schedule and in accordance with the process set out in the Procedures.</p>	<p>5.14 CCP CAP FOR CCP FUNCTIONS</p> <p>5.14.1 Calculation of CCP Cap</p> <p>The "CCP Cap" means a threshold amount with respect to the CCP Functions that if exceeded requires the pledging of CCP Collateral, which threshold amount is established in accordance with this Rule 5.14. The amount of the CCP Cap shall be the same for all Participants, regardless of the category in which the Participant is classified and regardless of the number of CCP Functions used by the Participant. The amount of the CCP Cap shall be set out in the Procedures. The CCP Cap shall be reviewed on the schedule and in accordance with the process set out in the Procedures.</p>

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<p>5.14.2 Calculation of Participant's CCP Contributions Total</p> <p>For each Participant using a CCP Function, CDS calculates the Participant's "CCP Contributions Total", which is an amount determined in accordance with the Procedures taking into account the Contributions required to be made by the Participant to the Funds for all of the CCP Functions used by it. CDS compares the CCP Contributions Total of each Participant to the CCP Cap.</p>	<p>5.14.2 Calculation of Participant's CCP Contributions Total</p> <p>For each Participant using a CCP Function, CDS calculates the Participant's "CCP Contributions Total", which is an amount determined in accordance with the Procedures taking into account the Contributions required to be made by the Participant to the Funds for all of the CCP Functions used by it. CDS compares the CCP Contributions Total of each Participant to the CCP Cap.</p>
<p>5.14.3 CCP Contributions Total Exceeds Compared to CCP Cap</p> <p>(a) First Occurrence of Excess Exceeds 75% of CCP Cap</p> <p>In the event that the Participant's CCP Contributions Total for a Business Day exceeds 75% of the CCP Cap, and provided that the Participant's CCP Contributions Total for the previous Business Day had not exceeded the CCP Cap, then upon receiving such information from CDS pursuant to Rule 5.14.4, the Participant shall advise CDS of the reasons for that situation, the steps it will take to reduce its CCP Contributions Total, and the time when it expects its CCP Contributions Total to be reduced to less than 75% of the CCP Cap, be required to make an additional Contribution to each of the Funds established for all CCP Functions used by that Participant. The total additional Contributions shall equal the amount by which its CCP Contributions Total exceeds the CCP Cap. The additional Contribution to each CCP Fund shall be in the same proportion to its total additional Contributions that its Contribution to such Fund prior to the making of the additional Contribution was to its Contributions to all CCP Funds at that time.</p> <p>(b) Excess Not Cured Exceeds 100% but does not exceed 150% of CCP Cap</p> <p>In the event that the Participant's CCP Contributions Total exceeds the CCP Cap and does not exceed 150% of the CCP Cap for two consecutive Business Days, then the Participant shall grant to CDS a security interest in CCP Collateral in an amount equal to the amount by which its CCP Contributions Total exceeds the CCP Cap. CDS shall restrict the right to use system functionality to enter new Transactions into the ACCESS Service and to use the CNS Function and the DetNet Function. Such restrictions shall continue until the Participant's CCP Contributions Total is less than 75% of the CCP Cap.</p> <p>(c) Effect of Restriction of Functionality Exceeds 150% of CCP Cap</p> <p>Notwithstanding the restriction of a Participant's right to use a CCP Function or the ACCESS Service, its outstanding Central Counterparty Obligations shall continue to be Settled and its outstanding ACCESS Trades shall continue to be processed through the ACCESS Function. The restriction of a Participant's right to use system functionality does not affect its obligations with respect to the CCP Functions it uses and the ACCESS Service, including its</p>	<p>5.14.3 CCP Contributions Compared to CCP Cap</p> <p>(a) Exceeds 75% of CCP Cap</p> <p>In the event that the Participant's CCP Contributions Total exceeds 75% of the CCP Cap, then upon receiving such information from CDS pursuant to Rule 5.14.4, the Participant shall advise CDS of the reasons for that situation, the steps it will take to reduce its CCP Contributions Total, and the time when it expects its CCP Contributions Total to be reduced to less than 75% of the CCP Cap.</p> <p>(b) Exceeds 100% but does not exceed 150% of CCP Cap</p> <p>In the event that the Participant's CCP Contributions Total exceeds the CCP Cap and does not exceed 150% of the CCP Cap, then the Participant shall grant to CDS a security interest in CCP Collateral in an amount equal to the amount by which its CCP Contributions Total exceeds the CCP Cap.</p> <p>(c) Exceeds 150% of CCP Cap</p> <p>In the event that the Participant's CCP Contributions Total exceeds 150% of the CCP Cap, then the Participant shall grant to CDS a security interest in CCP Collateral in an amount equal to (i) the amount by which its CCP Contributions Total exceeds the CCP Cap plus (ii) the amount by which its CCP Contributions Total exceeds 150% of the CCP Cap.</p> <p>(d) Release of Excess CCP Collateral</p> <p>When the CCP Contributions Total of a Participant is reduced, any excess CCP Collateral delivered by it shall be released at the request of the Participant.</p>

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<p>obligation to make Contributions to the Fund for a CCP Function, its obligation to pay Marks, and its obligations as a Member of the Credit Ring for a CCP Function. If CDS has restricted the right of either Participant to a Trade to use the CNS Function or the DetNet Function before such Trade has been processed through such Function, then such Trade shall no longer be eligible for that Function. As a result, the outstanding Trade shall be Settled between the Participants who were the parties to the original Trade.</p> <p><u>In the event that the Participant's CCP Contributions Total exceeds 150% of the CCP Cap, then the Participant shall grant to CDS a security interest in CCP Collateral in an amount equal to (i) the amount by which its CCP Contributions Total exceeds the CCP Cap plus (ii) the amount by which its CCP Contributions Total exceeds 150% of the CCP Cap.</u></p> <p><u>(d) Release of Excess CCP Collateral</u></p> <p><u>When the CCP Contributions Total of a Participant is reduced, any excess CCP Collateral delivered by it shall be released at the request of the Participant.</u></p>	
<p>5.14.4 CDS Discretion re Excess CCP Contributions Total</p> <p>(a) Discretion re Selective Processing in CNS and DetNet</p> <p>Notwithstanding the restriction of a Participant's right to use a CCP Function, at the request of the Participant CDS may select particular eligible Transactions of that Participant for processing through CNS or DetNet, provided that CDS determines such processing is likely to reduce the Participant's CCP Contributions Total. The selection of Transactions to be so processed shall be made on the basis of criteria set out in the Procedures.</p> <p>(b) Discretion re Restriction of Functionality</p> <p>At the request of a Participant whose CCP Contributions Total exceeds the CCP Cap for two consecutive Business Days, CDS may determine in its discretion that it will not restrict the Participant's right to use system functionality in accordance with Rule 5.14.3, provided that (i) the Participant's CCP Contributions Total does not exceed 110% of the CCP Cap and (ii) CDS determines, based on the information reasonably available to it, that such action is warranted under the specific circumstances.</p> <p>(c) Exercise of Discretion</p> <p>In exercising its discretion under this Rule 5.14.4, CDS shall take reasonable care in what it, in good faith, considers to be in the best interests of CDS and of all Participants. CDS shall not be liable to any Participant for any loss, damage, cost, expense, liability or claim arising from the restriction of the right of that Participant or of any other Participant to use system functionality or from the exercise of its discretion to postpone such restriction or to selectively lift such restriction.</p>	

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<p>5.14.45 Information Notice re CCP Cap</p> <p>If a Participant's CCP Contributions Total reaches 75% or more of the CCP Cap, CDS shall give notice to inform the following persons when a Participant's and its Appropriate Authority of this fact, indicating the percentage of the CCP Cap represented by the Participant's CCP Contributions Total exceeds the specified percentage of the CCP Cap: If CDS imposes a restriction on a Participant's right to use system functionality in accordance with this Rule 5.14, CDS shall inform the Participant, its Appropriate Authority and all other Participants using any of the CCP Functions used by the Participant when such restriction has been imposed and when such restriction has been lifted.</p> <p>(i) 75% of CCP Cap: the Participant and a Signing Officer of the Participant, and the Appropriate Authority;</p> <p>(ii) 100% of CCP Cap: the Participant and a Signing Officer of the Participant, the Appropriate Authority and all other Participants using any of the CCP Functions used by the Participant; and</p> <p>(iii) 150% of CCP Cap: the Participant and a Signing Officer of the Participant, and the Appropriate Authority and all other Participants using any of the CCP Functions used by the Participant.</p> <p>CDS shall also give notice to the same persons when the Participant's CCP Contributions Total is reduced to the specified percentage of the CCP Cap. Each notice shall identify the Participant and the specified percentage of the CCP Cap which has been exceeded or to which the Participant's CCP Contributions Total has been reduced.</p> <p>The Appropriate Authority is:</p> <p>(a) the principal Canadian self-regulatory organization of which the Participant is a member;</p> <p>(b) failing which, the principal Canadian Regulatory Body having jurisdiction over the Participant; or</p> <p>(c) failing which, the principal foreign Regulatory Body having jurisdiction over the Participant.</p>	<p>5.14.4 Notice re CCP Cap</p> <p>CDS shall give notice to the following persons when a Participant's CCP Contributions Total exceeds the specified percentage of the CCP Cap:</p> <p>(i) 75% of CCP Cap: the Participant and a Signing Officer of the Participant, and the Appropriate Authority;</p> <p>(ii) 100% of CCP Cap: the Participant, and a Signing Officer of the Participant, the Appropriate Authority and all other Participants using any of the CCP Functions used by the Participant; and</p> <p>(iii) 150% of CCP Cap: the Participant and a Signing Officer of the Participant, and the Appropriate Authority and all other Participants using any of the CCP Functions used by the Participant.</p> <p>CDS shall also give notice to the same persons when the Participant's CCP Contributions Total is reduced to the specified percentage of the CCP Cap. Each notice shall identify the Participant and the specified percentage of the CCP Cap which has been exceeded or to which the Participant's CCP Contributions Total has been reduced.</p> <p>The Appropriate Authority is:</p> <p>(a) the principal Canadian self-regulatory organization of which the Participant is a member;</p> <p>(b) failing which, the principal Canadian Regulatory Body having jurisdiction over the Participant; or</p> <p>(c) failing which, the principal foreign Regulatory Body having jurisdiction over the Participant.</p>
<p>9.1.1 Automatic Suspension</p> <p>CDS shall suspend a Participant if the Participant fails, by the time required in accordance with the Rules, Procedures and User Guides:</p> <p>(i) to make a required payment in full at CDSX Payment Exchange or Link Payment Exchange;</p> <p>(ii) to provide Specific Collateral, <u>CCP Collateral</u> or Cross-Border Specific Collateral;</p> <p>(iii) to make its required Contribution to a Fund, a Collateral Pool or a Link Fund;</p>	<p>9.1.1 Automatic Suspension</p> <p>CDS shall suspend a Participant if the Participant fails, by the time required in accordance with the Rules, Procedures and User Guides:</p> <p>(i) to make a required payment in full at CDSX Payment Exchange or Link Payment Exchange;</p> <p>(ii) to provide Specific Collateral, CCP Collateral or Cross-Border Specific Collateral;</p> <p>(iii) to make its required Contribution to a Fund, a Collateral Pool or a Link Fund;</p>

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<p>(iv) to pay its obligation to CDS as a Surety pursuant to a Line of Credit; or</p> <p>(v) to pay its proportionate share, as a Member of a Fund Credit Ring, Category Credit Ring or Link Fund Credit Ring, of the obligation of another Member of that Credit Ring.</p>	<p>(iv) to pay its obligation to CDS as a Surety pursuant to a Line of Credit; or</p> <p>(v) to pay its proportionate share, as a Member of a Fund Credit Ring, Category Credit Ring or Link Fund Credit Ring, of the obligation of another Member of that Credit Ring.</p>
<p>9.3.1 Collateral of Suspended Participant</p> <p>...</p> <p>(b) Specific Collateral</p> <p>The suspended Participant's Specific Collateral <u>and CCP Collateral</u> shall be realized by CDS and the net proceeds applied in accordance with Rule 9.3.13.</p> <p>...</p> <p>(d) Fund Contributions</p> <p>With respect to any obligation of the suspended Participant that is guaranteed by a Fund Credit Ring, CDS will provide for immediate payment of the amount owing by means of an advance to CDS and may use the Contribution of the suspended Participant to that Fund, <u>the CCP Collateral of the suspended Participant</u>, and, if required, the Contributions of the Other Members of the Fund Credit Ring to secure such advance.</p> <p>...</p>	<p>9.3.1 Collateral of Suspended Participant</p> <p>...</p> <p>(b) Specific Collateral</p> <p>The suspended Participant's Specific Collateral and CCP Collateral shall be realized by CDS and the net proceeds applied in accordance with Rule 9.3.13.</p> <p>...</p> <p>(d) Fund Contributions</p> <p>With respect to any obligation of the suspended Participant that is guaranteed by a Fund Credit Ring, CDS will provide for immediate payment of the amount owing by means of an advance to CDS and may use the Contribution of the suspended Participant to that Fund, the CCP Collateral of the suspended Participant, and, if required, the Contributions of the Other Members of the Fund Credit Ring to secure such advance.</p> <p>...</p>
<p>9.3.12 Application of Fund Contributions <u>and CCP Contributions</u></p> <p><u>(a) Fund Contributions</u></p> <p>If a Participant who is a Member of a Fund Credit Ring is suspended, CDS shall apply the net proceeds of realization of its Fund Contributions as set out below.</p> <p>(i) (a) The net proceeds of realization of its Fund Contributions shall be applied to pay (A) (i) any Marks owing by it in respect of the Function for which the Fund was established, (B) (ii) any negative net termination value arising from the close-out of its Central Counterparty Obligations arising from such Function and, (C) (iii) for the ACCESS Fund only, any obligations arising from a Short Position or Short Position Charge, a guaranty on deposit or an indemnity or Cross-Border Claim.</p> <p>(ii) (b) Any excess remaining shall be applied by CDS pursuant to Rule 9.3.13.</p> <p><u>(b) CCP Collateral</u></p> <p><u>If a Participant using a CCP Function is suspended, and the Participant has delivered CCP Collateral to CDS, CDS shall apply the net proceeds of realization of its CCP Collateral as set out below.</u></p> <p>(i) <u>For each CCP Function used by the Participant, CDS shall determine the amount (the "Shortfall") by which the total of the net proceeds of realization of its Fund</u></p>	<p>9.3.12 Application of Fund Contributions and CCP Contributions</p> <p>(a) Fund Contributions</p> <p>If a Participant who is a Member of a Fund Credit Ring is suspended, CDS shall apply the net proceeds of realization of its Fund Contributions as set out below.</p> <p>(i) The net proceeds of realization of its Fund Contributions shall be applied to pay (A) any Marks owing by it in respect of the Function for which the Fund was established, (B) any negative net termination value arising from the close-out of its Central Counterparty Obligations arising from such Function and, (C) for the ACCESS Fund only, any obligations arising from a Short Position or Short Position Charge, a guaranty on deposit or an indemnity or Cross-Border Claim.</p> <p>(ii) Any excess remaining shall be applied by CDS pursuant to Rule 9.3.13.</p> <p>(b) CCP Collateral</p> <p>If a Participant using a CCP Function is suspended, and the Participant has delivered CCP Collateral to CDS, CDS shall apply the net proceeds of realization of its CCP Collateral as set out below.</p> <p>(i) For each CCP Function used by the Participant, CDS shall determine the amount (the "Shortfall") by which the total of the net proceeds of realization of its Fund</p>

Text of CDS Participant Rules marked to reflect proposed amendments	Text CDS Participant Rules reflecting the adoption of proposed amendments
<p><u>Contributions for that Function were less than (A) any Marks owing by it in respect of the Function for which the Fund was established, (B) any negative net termination value arising from the close-out of its Central Counterparty Obligations arising from such Function and, (C) for the ACCESS Fund only, any obligations arising from a Short Position or Short Position Charge, a guaranty on deposit or an indemnity or Cross-Border Claim. The net proceeds of realization of its CCP Collateral shall be applied to pay the Shortfall in each Function. If the total of all of the Shortfalls exceeds the net proceeds of realization of its CCP Collateral, then such proceeds shall be allocated to pay the Shortfall for each CCP Function in the same proportion that such Shortfall is of the total of all Shortfalls.</u></p> <p><u>(ii) Any excess remaining shall be applied by CDS pursuant to Rule 9.3.13.</u></p>	<p>Contributions for that Function were less than (A) any Marks owing by it in respect of the Function for which the Fund was established, (B) any negative net termination value arising from the close-out of its Central Counterparty Obligations arising from such Function and, (C) for the ACCESS Fund only, any obligations arising from a Short Position or Short Position Charge, a guaranty on deposit or an indemnity or Cross-Border Claim. The net proceeds of realization of its CCP Collateral shall be applied to pay the Shortfall in each Function. If the total of all of the Shortfalls exceeds the net proceeds of realization of its CCP Collateral, then such proceeds shall be allocated to pay the Shortfall for each CCP Function in the same proportion that such Shortfall is of the total of all Shortfalls.</p> <p>(ii) Any excess remaining shall be applied by CDS pursuant to Rule 9.3.13.</p>
<p>9.3.13 Application of Excess Proceeds</p> <p>The following amounts calculated in respect of a suspended Participant shall be considered to be excess proceeds of realization, to be applied by CDS in accordance with this Rule:</p> <p>(a) any positive Funds Account balances,</p> <p>(b) any funds credited to its Restricted Collateral Accounts, subject to the right of the Pledgor to redeem such funds, and any funds reflected in its Pledge Accounts that were Pledged by it, to the extent of the suspended Participant's beneficial interest therein,</p> <p>(c) the net proceeds of realization of its Specific Collateral,</p> <p>(d) the net proceeds of realization of its Collateral Pool Contributions remaining after such proceeds are applied pursuant to Rule 9.3.10,</p> <p>(e) the net proceeds of realization of its Settlement Service Collateral remaining after such proceeds are applied pursuant to Rule 9.3.11, and</p> <p>(f) any net positive balance owing by CDS to the suspended Participant in respect of a CCP Function after setting off the net proceeds of realization of its Contributions to the Fund for that CCP Function pursuant to Rule 9.3.12, all Marks payable by or to the Participant arising from that CCP Function and the net termination value of all Central Counterparty Obligations of the suspended Participant arising from that CCP Function, <u>and</u></p> <p><u>(g) the net proceeds of realization of its CCP Collateral remaining after such proceeds are applied pursuant to Rule 9.3.12.</u></p> <p>Such excess proceeds of realization shall be applied by CDS to reduce the obligations of the suspended Participant</p>	<p>9.3.13 Application of Excess Proceeds</p> <p>The following amounts calculated in respect of a suspended Participant shall be considered to be excess proceeds of realization, to be applied by CDS in accordance with this Rule:</p> <p>(a) any positive Funds Account balances,</p> <p>(b) any funds credited to its Restricted Collateral Accounts, subject to the right of the Pledgor to redeem such funds, and any funds reflected in its Pledge Accounts that were Pledged by it, to the extent of the suspended Participant's beneficial interest therein,</p> <p>(c) the net proceeds of realization of its Specific Collateral,</p> <p>(d) the net proceeds of realization of its Collateral Pool Contributions remaining after such proceeds are applied pursuant to Rule 9.3.10,</p> <p>(e) the net proceeds of realization of its Settlement Service Collateral remaining after such proceeds are applied pursuant to Rule 9.3.11,</p> <p>(f) any net positive balance owing by CDS to the suspended Participant in respect of a CCP Function after setting off the net proceeds of realization of its Contributions to the Fund for that CCP Function pursuant to Rule 9.3.12, all Marks payable by or to the Participant arising from that CCP Function and the net termination value of all Central Counterparty Obligations of the suspended Participant arising from that CCP Function, and</p> <p>(g) the net proceeds of realization of its CCP Collateral remaining after such proceeds are applied pursuant to Rule 9.3.12.</p> <p>Such excess proceeds of realization shall be applied by CDS to reduce the obligations of the suspended Participant</p>

Text of CDS Participant Rules marked to reflect proposed amendments	Text CDS Participant Rules reflecting the adoption of proposed amendments
<p>to CDS. If the obligations of the suspended Participant are greater than such excess proceeds, the excess proceeds shall be applied to reduce the obligations of the suspended Participant that are guaranteed by its Sureties, by the Other Members of its Category Credit Ring and by the Other Members of each of its Fund Credit Rings, pro rata in proportion to the shortfall if any between the amount paid to CDS by each such guarantor and its share of the net proceeds of realization of the Collateral of the suspended Participant when such proceeds are applied in accordance with the foregoing provisions of this Rule 9. If, after payment of all of the obligations of the suspended Participant to CDS, there is any amount remaining, CDS shall pay such amount to the suspended Participant.</p>	<p>to CDS. If the obligations of the suspended Participant are greater than such excess proceeds, the excess proceeds shall be applied to reduce the obligations of the suspended Participant that are guaranteed by its Sureties, by the Other Members of its Category Credit Ring and by the Other Members of each of its Fund Credit Rings, pro rata in proportion to the shortfall if any between the amount paid to CDS by each such guarantor and its share of the net proceeds of realization of the Collateral of the suspended Participant when such proceeds are applied in accordance with the foregoing provisions of this Rule 9. If, after payment of all of the obligations of the suspended Participant to CDS, there is any amount remaining, CDS shall pay such amount to the suspended Participant.</p>