

**13.1.5 CDS Notice of Commission Approval – Technical Amendments to CDS Free Payments Funds Transfer Rule**

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

**TECHNICAL AMENDMENTS TO CDS FREE PAYMENTS  
FUNDS TRANSFER RULE**

**NOTICE OF COMMISSION APPROVAL**

**A. Description of the Rule Amendment**

The amendments proposed pursuant to this Notice concern a clarification regarding the making of Free Payments through CDSX.

Specifically, these amendments clarify that a Free Payment may be made via Funds Transfer between The Canadian Depository for Securities Limited (“CDS”) and a Participant. The current CDS Participant Rule contemplates such payments occurring between two Participants and does not address such payments between a Participant and CDS.

A Free Payment is a payment made without any corresponding delivery of securities. A Funds Transfer is a transfer whereby the funds account of one party is debited and the funds account of another party is credited with a corresponding amount (Participant Rule 1.2.1).

The current CDS Participant Rule also imposes certain restrictions on Funds Transfers (requiring that the payment be made from a credit balance and not use any system-operating cap or line of credit available to the paying party). The proposed amendment clarifies the intention that this restriction applies only to a Funds Transfer between two Participants.

These amendments will facilitate the accommodation processing by financial institutions concerning issuer entitlement payments made by cheques.

The amendments have been attached as Schedule A.

**B. Reasons for Technical Classification**

The amendments proposed pursuant to this Notice are considered technical amendments. These amendments concern matters of a technical nature in routine operating procedures and administrative practices relating to settlement services. There is no substantive change in regards to the amendments. The proposed amendments clarify that a free payment by funds transfer may also be made between CDS and a participant in addition to the current provision permitting free payments by funds transfer between participants. Additionally, the proposed amendments clarify that restrictions on funds transfers continue to apply to those made between participants but do not apply to funds transfers between CDS and a participant (regardless of whether the transfer was to or from CDS).

**C. Effective Date of the Rule**

The effective date for these amendments is January 3, 2006.

**D. Questions**

Questions regarding this notice may be directed to:

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**SCHEDULE 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><b>7.2.5 Free Payment</b></p> <p>(a) Methods of Making Free Payments</p> <p>In the following circumstances, a payment may be made through the Settlement Service without any corresponding delivery of Securities being made:</p> <p>(i) the payment is made as part of an Entitlements Transaction between CDS and a Participant;</p> <p>(ii) the payment is made as part of any Transaction generated by the system, including Transactions for ATON activity;</p> <p>(iii) the payment is made from a Participant to another Participant for a purpose set out in the Procedures and in an amount not exceeding the limit set out in the Procedures (provided that no Participant shall make two or more payments for the purpose of avoiding such limit); or</p> <p>(iv) the payment is made <del>from a Participant to another Participant</del> using a Funds Transfer.</p> <p>(b) Restrictions on Funds Transfers</p> <p>A Funds Transfer <u>between any two Participants</u> is subject to the following restrictions: (i) a Funds Transfer is made only if the debit to the paying Participant's Funds Account does not exceed the credit balance in that Funds Account; and (ii) a Funds Transfer shall not draw any amount under a Line of Credit or a System-Operating Cap established for the paying Participant. Such restrictions do not apply to a Fund Transfer if the following conditions are met: (i) the paying Participant is an Extender or an Active Federated Participant, (ii) the debit is denominated in US Dollars and (iii) the Funds Transfer is made for the purpose of correcting an ACV or System-Operating Cap insufficiency on the part of the recipient.</p> <p>(c) Monitoring of Free Payments</p> <p>CDS monitors payments made without any corresponding delivery of securities, and may request a Participant to confirm that such a payment made or received by the Participant conformed to the requirements of this Rule 7.2.5. If CDS determines, acting reasonably, that such a payment made or received by a Participant did not conform to the requirements of this Rule 7.2.5, CDS may take any steps consistent with these Rules.</p>	<p><b>7.2.5 Free Payment</b></p> <p>(a) Methods of Making Free Payments</p> <p>In the following circumstances, a payment may be made through the Settlement Service without any corresponding delivery of Securities being made:</p> <p>(i) the payment is made as part of an Entitlements Transaction between CDS and a Participant;</p> <p>(ii) the payment is made as part of any Transaction generated by the system, including Transactions for ATON activity;</p> <p>(iii) the payment is made from a Participant to another Participant for a purpose set out in the Procedures and in an amount not exceeding the limit set out in the Procedures (provided that no Participant shall make two or more payments for the purpose of avoiding such limit); or</p> <p>(iv) the payment is made using a Funds Transfer.</p> <p>(b) Restrictions on Funds Transfers</p> <p>A Funds Transfer between any two Participants is subject to the following restrictions: (i) a Funds Transfer is made only if the debit to the paying Participant's Funds Account does not exceed the credit balance in that Funds Account; and (ii) a Funds Transfer shall not draw any amount under a Line of Credit or a System-Operating Cap established for the paying Participant. Such restrictions do not apply to a Fund Transfer if the following conditions are met: (i) the paying Participant is an Extender or an Active Federated Participant, (ii) the debit is denominated in US Dollars and (iii) the Funds Transfer is made for the purpose of correcting an ACV or System-Operating Cap insufficiency on the part of the recipient.</p> <p>(c) Monitoring of Free Payments</p> <p>CDS monitors payments made without any corresponding delivery of securities, and may request a Participant to confirm that such a payment made or received by the Participant conformed to the requirements of this Rule 7.2.5. If CDS determines, acting reasonably, that such a payment made or received by a Participant did not conform to the requirements of this Rule 7.2.5, CDS may take any steps consistent with these Rules.</p>