

**13.1.3 Notice and Request for Comment – Material Amendments to CDS Rules Relating to Access to the Account Transfer Online Notification (ATON) Service**

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

**MATERIAL AMENDMENTS TO CDS RULES –  
ACCESS TO THE ACCOUNT TRANSFER ONLINE NOTIFICATION (ATON) SERVICE**

**REQUEST FOR COMMENTS**

**DESCRIPTION OF THE PROPOSED AMENDMENTS**

On January 26, 2006 the Board of Directors of The Canadian Depository for Securities Limited (“CDS”) approved amendments to Participant Rules which concern the provision of the ATON service by CDS. ATON is a service that facilitates the electronic transfer of client account information to assist in the transfer of such accounts between the subscribers to the system. The use of ATON substantially reduces the time and cost to effect a transfer of client accounts between subscribers.

It is proposed that ATON will be transferred from CDS Inc. to CDS, and ATON will then be offered to Participants as a service under the Participant Rules. The rights and obligations of subscribers to the ATON service will be subject to CDS Participant Rules which will replace the ATON Subscriber Agreement pursuant to the proposed amendments. Certain financial institutions which are not currently CDS Participants, including mutual fund dealers, will be eligible to become limited-purpose participants and will then be able to use ledgers in CDS’s clearing and settlement system, CDSX, to transfer client assets.

**NATURE AND PURPOSE OF THE PROPOSED AMENDMENTS**

*Background*

Currently, ATON is a service offered by CDS Inc., a wholly-owned subsidiary of CDS.

ATON is an information transmission system, and not a system for the transfer of assets or payments. A subscriber to whom a client account is to be moved (the receiving subscriber) will use ATON to deliver a request for transfer to another Participant, the one currently holding the client account (the delivering subscriber). The delivering subscriber will return the request for transfer with a list of the assets to be transferred. The receiving subscriber will then confirm the returned request for transfer. If either subscriber does not accept the information sent by the other subscriber, the transaction can be rejected and the matter is resolved between the subscribers. A confirmed request for transfer is deemed to be an instruction from the receiving and delivering subscribers to the appropriate clearing institution for each asset to be transferred. Information on the assets to be transferred is sent by the ATON system to each clearing institution, which in turn effects the delivery of the assets. Clearing institutions include CDS, FundSERV Inc. and The Depository Trust Company.

Subscribers to the ATON service, which are CDS Participants, can then, through the use of CDS ledger accounts, move securities and funds. Currently, ATON service subscribers that are not CDS Participants do not have access to CDS ledgers and must rely on a CDS Participant to facilitate the transfer of securities and funds.

Several options were considered to permit institutions that are not full CDS Participants to use the ATON service. All of the alternatives would permit the institutions to use ATON functionality to exchange requests for transfer and asset lists electronically, rather than manually, and to process settlement for mutual fund assets (assuming the institution is a member of FundSERV). An evaluation of each option is set out below:

- Under the first option, an institution would become an ATON subscriber. This option would not permit the electronic transfer of CDSX eligible securities and cash, and therefore the objectives of reducing cost and risk by reducing manual processing would not be met.
- Under the second option, an institution would be an ATON subscriber and would also appoint a full CDS Participant as a correspondent broker. This option would permit the electronic transfer of CDSX eligible securities and cash. This option would require the use of two requests for transfers: the institution would set up the first request for transfer for mutual funds; its correspondent broker would set up the second request for transfer to process all other assets. This option would therefore increase the work and costs of making requests for transfer, and increase the possibility of errors in processing. Institutions would also incur the cost of employing the correspondent broker.
- Under the third option, an eligible institution would become a full CDS Participant. This option would permit the electronic transfer of CDSX eligible securities and cash without intervention by a third party and without the burden of processing two requests for transfer for each client account. However, the CDS entrance fee may be too significant for

institutions whose transactions would likely be limited to ATON transactions and who do not, therefore, require the full range of CDSX functionality.

- The fourth option is to create a new category of limited-purpose ATON Participant. This option would permit the electronic transfer of CDSX eligible securities and cash, without intervention by a third party and without the burden of processing each request for transfer twice. The entrance fee for limited purpose ATON Participants would be substantially lower than for other participants. This option is the preferred solution, considering the factors of cost, efficiency, risk and implementation timelines.

In assessing each of the options and selecting the fourth as the preferable option, CDS referred the matter to the CDS Risk Advisory Committee and had the proposal reviewed by three firms – two based in central Canada and one in Western Canada – that are expected to become limited-purpose ATON Participants.

#### *Purpose of The Proposed Amendments*

The proposed amendments will address a number of shortcomings relating to the provision of access to the ATON service under the current model. These shortcomings include:

- The fact that not all subscribers to the ATON service are subject to the same screening process or the same obligations under the CDS Participant Rules. Where a prospective subscriber to the ATON service is not a Participant, they are not subject to the same suitability reviews or general obligations under the CDS Participant Rules; and
- The fact that presently subscribers to the ATON service, who are not CDS Participants, must rely on CDS Participants to access CDS ledgers to effect the transfer of securities and funds and cannot effect such a transfer on their own behalf.

The proposed amendments provide that an institution, which is not otherwise a CDS Participant, may apply to become a limited-purpose ATON Participant which will be entitled to use the ATON service only. Such Participants would not be provided access to other CDS services. These Participants will be subject to specific requirements and obligations and will be given direct access to CDS ledger accounts to allow them to transfer ATON-related assets through the use of a designated custodial Participant and qualified banker.

Institutions which currently utilize the ATON service, but are not CDS Participants, may either apply to become full CDS Participants, apply to become limited-purpose ATON Participants or may choose to use the ATON service through their clearing broker.

#### *Description of Proposed Amendments*

The proposed amendments include the addition of a new Rule to the CDS Participant Rules. This new rule, Rule 12, includes provisions to protect the Participants using the ATON service. A Participant making a request for transfer (the “receiving Participant”) must have written instructions from its client and must make the client instructions available on request to the Participant which is to deliver the client’s assets (the “delivering Participant”). Each receiving Participant warrants the accuracy and completeness of each request for transfer made, including the list of assets to be transferred, and agrees to indemnify the delivering Participant who relies on such information. CDS and all Participants provide reciprocal representations and warranties that they will comply with the requirements of privacy legislation with respect to the information transmitted through ATON.

The proposed Rule 12 also describes the process for transferring assets using the ATON service. In the settlement service of CDSX, settlement of a trade is effected by CDS making entries to the ledgers maintained by it for the Participants who are parties to the trade, to debit and credit the appropriate funds account and securities accounts so as to make payment and deliver securities between the participants. For ATON transactions, the securities in the client account are transferred as “AT” trades, which settle through CDSX as free deliveries (the receiving Participant does not make any payment for the securities). The cash in the client account is transferred as a free payment (the receiving Participant does not deliver any securities in return for the payment).

Rule 12 also contains specific provisions dealing with CDS’s risk exposure which results from the creation of a limited-purpose ATON Participant category. The usual means of risk control in CDSX are a combination of collateralization by the individual participant and a guaranty by a credit ring. The proposed Rule amendments limit activities that a limited-purpose ATON Participant may undertake. This will result in a limitation of their obligations to CDS and the risk that their participation brings to CDSX. A limited-purpose ATON Participant will not be eligible to use any CCP function (which results in central counterparty obligations owing between a participant and CDS), nor will it be permitted to take on various roles with respect to CDSX securities for which it may incur obligations (as an ISIN activator, security validator or custodian, for instance). For this reason, limited-purpose ATON Participants will not belong to any credit ring, nor will they provide collateral to CDS to secure their

obligations. Their access to CDSX will be limited to the delivery and receipt of client assets (both CDSX eligible securities and money) in settlement of ATON transactions. All cash settlements will be made in good funds.

Current CDS Participants may use the ATON service without taking any further steps. Financial institutions applying to become unrestricted CDS Participants will be eligible to utilize the ATON service upon becoming full CDS Participants.

A Person is eligible to become a limited-purpose ATON participant if it is a:

- Regulated Financial Institution;
- mutual fund dealer which is a member of the Mutual Fund Dealers Association of Canada;
- mutual fund dealer regulated by a provincial securities commission; or
- broker, dealer, bank, savings bank, trust company, loan company or insurance company which trades in securities or mutual funds established or formed under the laws of a foreign jurisdiction and primarily regulated under the laws of a foreign jurisdiction.

The qualifications for a limited-purpose ATON Participant are the same as those for any participant that is a Regulated Financial Institution. A limited-purpose ATON Participant incorporated or primarily regulated outside of Canada will also be required to meet the qualifications imposed on Foreign Institutions. The standards to be met by a limited-purpose ATON Participant are the same standards required of all Participants.

In addition to the addition of Rule 12, a number of existing CDS Participant Rules will be amended to accommodate Rule 12 and the concept of limited-purpose ATON Participants.

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

The proposed amendments will ensure that all subscribers to the ATON service, including full CDS Participants as well as limited-purpose ATON Participants will be subject to consistent and appropriate obligations. Subscribers to the service will be assured that the counterparties to each transaction will fulfil all of CDS's requirements and will be bound by applicable CDS Participant Rules. Limited-purpose ATON Participants will be able to access CDS ledgers directly to arrange for the transfer of assets through the services of a designated custodial Participant.

The proposed amendments will require that current subscribers to the ATON service who are not CDS Participants make a decision with respect to accessing the ATON service. These subscribers may:

- apply to become full Participants in CDS which would allow them to utilize the ATON service;
- apply to become a limited-purpose ATON Participant who is entitled to utilize the ATON service only; or
- utilize the ATON service through their clearing broker which is a full CDS Participant.

Limited-purpose ATON Participants will pay both an entrance fee and a monthly fee. As the limited-purpose ATON Participant will only be entitled to use the ATON service their entrance fee will be substantially smaller than the fee charged to full CDS Participants. The monthly fee will be subject to a minimum amount that will be reduced by the amount paid in fees for transactions effected by the limited-purpose ATON participant.

As indicated above, CDS's risk exposure is minimized as a result of the limited rights offered to the limited-purpose ATON Participants which limit the activities that limited-purpose ATON Participants may carry out through CDS. Expanding access to ATON is expected to benefit investors, financial institutions, mutual fund dealers and the Canadian capital markets.

#### *Investor Benefits*

The transfer of investment accounts from one adviser or broker to another without utilizing ATON currently takes a substantially longer period of time than when the ATON service is used. During this time, the investor may not be able to deal with his or her investments and therefore market conditions can change and losses can occur or opportunities missed. Permitting users of ATON to participate in CDSX in the new category of limited-purpose ATON Participant is expected to substantially increase ATON account transfer throughput over the next few years, and therefore will significantly improve the speed with which investor accounts are transferred to, from and between non-IDA dealers, thereby reducing investors' exposure to market risk.

*Financial Institution/Mutual Fund Dealer Benefits*

The ability to use ATON's electronic environment with a broader range of account delivering and receiving participants will facilitate faster, more accurate and more cost-effective account transfers and improve customer service. As well, investment dealers using the ATON service are better able to meet the requirements of IDA Regulation 2300.

**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 been 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 March 6, 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](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.

**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:

Toomas Marley  
Vice-President, Legal and Corporate Secretary  
The Canadian Depository for Securities Limited  
85 Richmond Street West  
Toronto, Ontario M5H 2C9

Telephone: 416-365-8545  
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TOOMAS MARLEY  
VICE-PRESIDENT, LEGAL AND CORPORATE SECRETARY

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

<b>Text of CDS Participant Rules marked to reflect proposed amendments</b>	<b>Text CDS Participant Rules reflecting the adoption of proposed amendments</b>
<p><b>1.1.1 Application</b></p> <p>The Rules adopted by CDS by which each Participant has agreed to be bound pursuant to the Participant Agreement are:</p> <p>Rule 1 - Documentation                      Rule 2 - Participation                      Rule 3 - Operations                      Rule 4 - Liability and Indemnity                      Rule 5 - Risk Management                      Rule 6 - Depository Service                      Rule 7 - Settlement Service                      Rule 8 - Payment Exchange for CDSX                      Rule 9 - Default                      Rule 10 - Cross-Border Services  <u>Rule 11 - TA Participants</u>  <u>Rule 12 - ATON.</u></p> <p><b>1.2.1 Definitions</b></p> <p><u>"ATON" means the Account Transfer On-Line Notification Service described in Rule 12.</u></p> <p><u>"ATON Participant" means a participant who is classified as such by CDS pursuant to Rule 2.3.2.</u></p> <p>"Service" means the Depository Service, the Settlement Service, <del>or a Cross-Border Service or ATON.</del> Any reference to a Service includes all Functions made available in respect of that Service.</p> <p><b>1.6.9 System-Operating Cap</b></p> <p>A Participant (other than Bank of Canada, <del>or a Non-Contributing Receiver, or a TA Participant or an ATON Participant</del>) is subject to a System-Operating Cap, which is a limit on the aggregate value of the transactions that may be effected at any one time by the Participant.</p> <p><b>2.1.2 Classification</b></p> <p>Each Participant is classified in a category as being Bank of Canada, an Extender of Credit, a Federated Participant, a Settlement Agent, a Receiver of Credit, <del>or a TA Participant, or an ATON Participant.</del> Each Participant may perform the roles in the Services appropriate to its classification. A Participant who meets the qualifications specified may also act as the ISIN Activator, Security Validator or Entitlements Processor for a particular Security. CDS appoints certain Participants to act as Domestic Custodians of Securities, and appoints Persons to act as Foreign Custodians of Securities.</p> <p><b>2.2.4 Eligibility for Participation</b></p> <p>A Person shall be eligible to apply to become a Participant if it is a Person described in one of the following categories:</p>	<p><b>1.1.1 Application</b></p> <p>The Rules adopted by CDS by which each Participant has agreed to be bound pursuant to the Participant Agreement are:</p> <p>Rule 1 - Documentation                      Rule 2 - Participation                      Rule 3 - Operations                      Rule 4 - Liability and Indemnity                      Rule 5 - Risk Management                      Rule 6 - Depository Service                      Rule 7 - Settlement Service                      Rule 8 - Payment Exchange for CDSX                      Rule 9 - Default                      Rule 10 - Cross-Border Services                      Rule 11 - TA Participants                      Rule 12 - ATON.</p> <p><b>1.2.1 Definitions</b></p> <p>"ATON" means the Account Transfer On-Line Notification Service described in Rule 12.</p> <p>"ATON Participant" means a participant who is classified as such by CDS pursuant to Rule 2.3.2.</p> <p>"Service" means the Depository Service, the Settlement Service, a Cross-Border Service or ATON. Any reference to a Service includes all Functions made available in respect of that Service.</p> <p><b>1.6.9 System-Operating Cap</b></p> <p>A Participant (other than Bank of Canada, a Non-Contributing Receiver, a TA Participant or an ATON Participant) is subject to a System-Operating Cap, which is a limit on the aggregate value of the transactions that may be effected at any one time by the Participant.</p> <p><b>2.1.2 Classification</b></p> <p>Each Participant is classified in a category as being Bank of Canada, an Extender of Credit, a Federated Participant, a Settlement Agent, a Receiver of Credit, a TA Participant, or an ATON Participant. Each Participant may perform the roles in the Services appropriate to its classification. A Participant who meets the qualifications specified may also act as the ISIN Activator, Security Validator or Entitlements Processor for a particular Security. CDS appoints certain Participants to act as Domestic Custodians of Securities, and appoints Persons to act as Foreign Custodians of Securities.</p> <p><b>2.2.4 Eligibility for Participation</b></p> <p>A Person shall be eligible to apply to become a Participant if it is a Person described in one of the following categories:</p>

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<p>...</p> <p><u>(f) ATON Participant</u></p> <p><u>which means a Person who meets the qualifications and standards set out in Rule 12.2 for an ATON Participant.</u></p> <p><b>2.2.5 Qualifications for Participation</b></p> <p>A Participant must satisfy all of the qualifications set out below for the category to which the Participant belongs. ...</p> <p><u>(e) If the Participant is an ATON Participant, it meets the qualifications and standards set out in Rule 12.2 for an ATON Participant.</u></p> <p><b>2.3.2 Categories</b></p> <p>Each Participant shall be classified into one of the following categories: ...</p> <p><u>(g) ATON Participant</u></p> <p><u>If the Participant satisfies the requirements set out in 12.2.3.</u></p> <p><b>2.4.7 TA Participant and ATON Participant</b></p> <p><b><u>(a) TA Participant</u></b></p> <p>A TA Participant:</p> <p>(i) <del>(a)</del> may not effect Settlements (including a transfer or Pledge of Securities) or hold Securities credited to its Ledger, except in its capacity as a CDSX Depository Agent or Entitlements Processor;</p> <p>(ii) <del>(b)</del> may not make Lines of Credit available to other Participants;</p> <p>(iii) <del>(c)</del> may not use Lines of Credit made available by an Extender of Credit or by the Active Federated Participant;</p> <p>(iv) <del>(d)</del> may not use <del>the ACCESS, CNS or DetNet Functions</del> <u>any CCP Function</u>;</p> <p>(v) <del>(e)</del> may not act as the ISIN Activator or Securities Validator for a Security; and</p> <p>(vi) <del>(f)</del> may not act as a Custodian.</p> <p><b><u>(b) ATON Participant</u></b></p> <p><u>An ATON Participant:</u></p> <p>(i) <u>may effect Settlements or hold Securities credited to its Ledger only in connection with the transfer of client accounts;</u></p> <p>(ii) <u>may not effect Settlements that result in a negative balance in its Funds Account;</u></p>	<p>...</p> <p>(f) ATON Participant</p> <p>which means a Person who meets the qualifications and standards set out in Rule 12.2 for an ATON Participant.</p> <p><b>2.2.5 Qualifications for Participation</b></p> <p>A Participant must satisfy all of the qualifications set out below for the category to which the Participant belongs. ...</p> <p>(e) If the Participant is an ATON Participant, it meets the qualifications and standards set out in Rule 12.2 for an ATON Participant.</p> <p><b>2.3.2 Categories</b></p> <p>Each Participant shall be classified into one of the following categories: ...</p> <p>(g) ATON Participant</p> <p>If the Participant satisfies the requirements set out in 12.2.3.</p> <p><b>2.4.7 TA Participant and ATON Participant</b></p> <p><b>(a) TA Participant</b></p> <p>A TA Participant:</p> <p>(i) may not effect Settlements (including a transfer or Pledge of Securities) or hold Securities credited to its Ledger, except in its capacity as a CDSX Depository Agent or Entitlements Processor;</p> <p>(ii) may not make Lines of Credit available to other Participants;</p> <p>(iii) may not use Lines of Credit made available by an Extender of Credit or by the Active Federated Participant;</p> <p>(iv) may not use any CCP Function;</p> <p>(v) may not act as the ISIN Activator or Securities Validator for a Security; and</p> <p>(vi) may not act as a Custodian.</p> <p><b>(b) ATON Participant</b></p> <p>An ATON Participant:</p> <p>(i) may effect Settlements or hold Securities credited to its Ledger only in connection with the transfer of client accounts;</p> <p>(ii) may not effect Settlements that result in a negative balance in its Funds Account;</p>

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<p>(iii) <u>may not deposit or withdraw Securities;</u></p> <p>(iv) <u>may not make Lines of Credit available to other Participants;</u></p> <p>(v) <u>may not use Lines of Credit made available by an Extender of Credit or by the Active Federated Participant;</u></p> <p>(vi) <u>may not use any CCP Function;</u></p> <p>(vii) <u>may not act as the ISIN Activator, Securities Validator, Entitlements Processor or CDSX Depository Agent for a Security; and</u></p> <p>(viii) <u>may not act as a Custodian.</u></p>	<p>(iii) may not deposit or withdraw Securities;</p> <p>(iv) may not make Lines of Credit available to other Participants;</p> <p>(v) may not use Lines of Credit made available by an Extender of Credit or by the Active Federated Participant;</p> <p>(vi) may not use any CCP Function;</p> <p>(vii) may not act as the ISIN Activator, Securities Validator, Entitlements Processor or CDSX Depository Agent for a Security; and</p> <p>(viii) may not act as a Custodian.</p>
<p><b>2.4.8 Limitation</b></p> <p>Bank of Canada may effect Settlements and make payment without limit as to the amount of such Settlements and payments. A TA Participant <u>or an ATON Participant</u> may effect Settlements provided that such Settlements do not result in a negative balance in its Funds Account, <u>and accordingly neither a TA Participant nor an ATON Participant uses a System-Operating Cap or a Line of Credit.</u> Any Participant other than Bank of Canada <del>or a TA Participant</del> may exercise the powers specified for the category into which it is classified only if such Transactions can be effected within its System-Operating Cap, if any, and any Line of Credit established for it.</p>	<p><b>2.4.8 Limitation</b></p> <p>Bank of Canada may effect Settlements and make payment without limit as to the amount of such Settlements and payments. A TA Participant or an ATON Participant may effect Settlements provided that such Settlements do not result in a negative balance in its Funds Account, and accordingly neither a TA Participant nor an ATON Participant uses a System-Operating Cap or a Line of Credit. Any Participant other than Bank of Canada may exercise the powers specified for the category into which it is classified only if such Transactions can be effected within its System-Operating Cap, if any, and any Line of Credit established for it.</p>
<p><b>2.5.3 ISIN Activator</b></p> <p>(a) Qualifications</p> <p>A Participant who is the Issuer of an eligible Security or is an agent of such an Issuer may act as the ISIN Activator for such Security. A TA Participant may not act as an ISIN Activator. <u>An ATON Participant may not act as an ISIN Activator.</u> ...</p>	<p><b>2.5.3 ISIN Activator</b></p> <p>(a) Qualifications</p> <p>A Participant who is the Issuer of an eligible Security or is an agent of such an Issuer may act as the ISIN Activator for such Security. A TA Participant may not act as an ISIN Activator. An ATON Participant may not act as an ISIN Activator. ...</p>
<p><b>2.5.4 Security Validator</b></p> <p>(a) Qualifications</p> <p>... A TA Participant may not act as a Security Validator; a TA Participant confirms Deposits and Withdrawals of Securities pursuant to Rule 11 and not pursuant to this Rule 2.5. <u>An ATON Participant may not act as a Security Validator.</u> ...</p>	<p><b>2.5.4 Security Validator</b></p> <p>(a) Qualifications</p> <p>... A TA Participant may not act as a Security Validator; a TA Participant confirms Deposits and Withdrawals of Securities pursuant to Rule 11 and not pursuant to this Rule 2.5. An ATON Participant may not act as a Security Validator. ...</p>
<p><b>2.5.5 Entitlements Processor</b></p> <p>(a) Qualifications</p> <p>... This Rule 2.5.5 shall not apply to a TA Participant who is acting as an Entitlements Processor, and its activities in that role shall be governed exclusively by Rule 11.6. <u>An ATON Participant may not act as an Entitlements Processor.</u> ...</p>	<p><b>2.5.5 Entitlements Processor</b></p> <p>(a) Qualifications</p> <p>... This Rule 2.5.5 shall not apply to a TA Participant who is acting as an Entitlements Processor, and its activities in that role shall be governed exclusively by Rule 11.6. An ATON Participant may not act as an Entitlements Processor. ...</p>

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<p><b>5.1.8 Role of ATON Participant</b></p> <p><u>Notwithstanding the provisions of this Rule 5, an ATON Participant:</u></p> <p>(a) <u>does not grant nor use a Line of Credit;</u></p> <p>(b) <u>is not a Member of a Fund Credit Ring;</u></p> <p>(c) <u>is not a Member of a Category Credit Ring;</u></p> <p>(d) <u>does not make any Contribution to any Fund or Collateral Pool;</u></p> <p>(e) <u>does not grant any security interest to CDS;</u></p> <p>(f) <u>does not have a System-Operating Cap that limits its Transactions; and</u></p> <p>(g) <u>is not required to satisfy the ACV edit.</u></p> <p><b>6.7.1 Description of Tender</b></p> <p>... A Depository Agent who is a Participant (<u>other than an ATON Participant</u>) may elect, with respect to any Tender, to use the Offer Account in its CDSX Ledger to receive delivery of Securities Tendered to it; a Participant who does so elect is referred to in this Rule 6.7 as a “CDSX Depository Agent”. ...</p> <p><b>7.2.1 Instructions</b></p> <p>(a) Reporting</p> <p>If a Participant who is a party to a Trade wishes to Settle the Trade by effecting delivery of Securities or payment or both to another Participant, the Trade shall be reported to CDS. The Trade may be reported by the Participant or by <u>ATON</u>, an Exchange, another trading system, or a trade matching utility if the Participant is a member thereof.</p> <p>(b) Confirmation</p> <p>In order to become eligible for Settlement, each Trade is confirmed in one of the following ways: (i) by one Participant to the Trade, after the Trade is entered by the other Participant who is a party to the Trade; (ii) by the CDSX trade matching function, if both Participants who are parties to the Trade have elected to use the trade matching function and if the Trade is eligible for the trade matching function; or (iii) by <u>ATON</u>, the Exchange, another trading system or a trade matching utility when the Trade is reported. ...</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><b>5.1.8 Role of ATON Participant</b></p> <p>Notwithstanding the provisions of this Rule 5, an ATON Participant:</p> <p>(a) does not grant nor use a Line of Credit;</p> <p>(b) is not a Member of a Fund Credit Ring;</p> <p>(c) is not a Member of a Category Credit Ring;</p> <p>(d) does not make any Contribution to any Fund or Collateral Pool;</p> <p>(e) does not grant any security interest to CDS;</p> <p>(f) does not have a System-Operating Cap that limits its Transactions; and</p> <p>(g) is not required to satisfy the ACV edit.</p> <p><b>6.7.1 Description of Tender</b></p> <p>... A Depository Agent who is a Participant (other than an ATON Participant) may elect, with respect to any Tender, to use the Offer Account in its CDSX Ledger to receive delivery of Securities Tendered to it; a Participant who does so elect is referred to in this Rule 6.7 as a “CDSX Depository Agent”. ...</p> <p><b>7.2.1 Instructions</b></p> <p>(a) Reporting</p> <p>If a Participant who is a party to a Trade wishes to Settle the Trade by effecting delivery of Securities or payment or both to another Participant, the Trade shall be reported to CDS. The Trade may be reported by the Participant or by ATON, an Exchange, another trading system, or a trade matching utility if the Participant is a member thereof.</p> <p>(b) Confirmation</p> <p>In order to become eligible for Settlement, each Trade is confirmed in one of the following ways: (i) by one Participant to the Trade, after the Trade is entered by the other Participant who is a party to the Trade; (ii) by the CDSX trade matching function, if both Participants who are parties to the Trade have elected to use the trade matching function and if the Trade is eligible for the trade matching function; or (iii) by ATON, the Exchange, another trading system or a trade matching utility when the Trade is reported. ...</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>

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(ii) the payment is made as part of any Transaction generated by the system, including <del>Transactions for ATON activity</del> a Transaction resulting from an ATON confirmed request for transfer; ...	(ii) the payment is made as part of any Transaction generated by the system, including a Transaction resulting from an ATON confirmed request for transfer; ...

New Rule 12

Text of CDS Participant Rules marked to reflect proposed amendments	Text CDS Participant Rules reflecting the adoption of proposed amendments
<p><b><u>12. ATON</u></b></p> <p><b><u>12.1 DESCRIPTION OF ATON</u></b></p> <p><b><u>12.1.1 General Description</u></b></p> <p><u>ATON (the Account Transfer Online Notification Service) is a service to facilitate the electronic transfer of client account information to assist in the transfer of client assets between Participants. ATON may be used by ATON Participants and by all other Participants.</u></p> <p><b><u>12.1.2 Processing of Information in ATON</u></b></p> <p><u>(a) request for transfer</u></p> <p><u>The Participant to whom a client account is to be transferred (the receiving Participant) inputs a request for transfer.</u></p> <p><u>(b) asset list</u></p> <p><u>When the Participant (the delivering Participant) who then holds that client account receives the request for transfer, it will either (i) return the request for transfer with an asset list for that account, or (ii) reject the request for transfer.</u></p> <p><u>(c) confirmation</u></p> <p><u>When the receiving Participant receives the returned request for transfer, it will either (i) confirm the returned request for transfer, or (ii) refuse to confirm the returned request for transfer in order to dispute the accuracy or completeness of the asset list.</u></p> <p><u>(d) settlement instructions</u></p> <p><u>The asset list itemizes the client assets to be transferred and identifies the appropriate clearing institution for each asset or, if there is no such appropriate clearing institution, identifies the asset as being delivered OTC (as that term is defined in the Procedures or User Guides). Each Participant using ATON agrees that a confirmed request for transfer is an instruction of each of the receiving Participant and the delivering Participant to the identified clearing institution. When the receiving Participant confirms the returned request for transfer, instructions are delivered through ATON to each identified clearing institution in order to settle the transfer of the assets eligible for such identified clearing institution in accordance with the confirmed request for transfer. The receiving Participant and the delivering</u></p>	<p><b>12. ATON</b></p> <p><b>12.1 DESCRIPTION OF ATON</b></p> <p><b>12.1.1 General Description</b></p> <p>ATON (the Account Transfer Online Notification Service) is a service to facilitate the electronic transfer of client account information to assist in the transfer of client assets between Participants. ATON may be used by ATON Participants and by all other Participants.</p> <p><b>12.1.2 Processing of Information in ATON</b></p> <p>(a) request for transfer</p> <p>The Participant to whom a client account is to be transferred (the receiving Participant) inputs a request for transfer.</p> <p>(b) asset list</p> <p>When the Participant (the delivering Participant) who then holds that client account receives the request for transfer, it will either (i) return the request for transfer with an asset list for that account, or (ii) reject the request for transfer.</p> <p>(c) confirmation</p> <p>When the receiving Participant receives the returned request for transfer, it will either (i) confirm the returned request for transfer, or (ii) refuse to confirm the returned request for transfer in order to dispute the accuracy or completeness of the asset list.</p> <p>(d) settlement instructions</p> <p>The asset list itemizes the client assets to be transferred and identifies the appropriate clearing institution for each asset or, if there is no such appropriate clearing institution, identifies the asset as being delivered OTC (as that term is defined in the Procedures or User Guides). Each Participant using ATON agrees that a confirmed request for transfer is an instruction of each of the receiving Participant and the delivering Participant to the identified clearing institution. When the receiving Participant confirms the returned request for transfer, instructions are delivered through ATON to each identified clearing institution in order to settle the transfer of the assets eligible for such identified clearing institution in accordance with the confirmed request for transfer. The receiving Participant and the delivering</p>

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<p><u>Participant shall arrange for the delivery of any assets identified as being delivered OTC. This Rule 12 does not apply to the transfer of assets through the identified clearing institutions.</u></p> <p><u>(e) dispute resolution</u></p> <p><u>Responsibility for resolving any dispute between a receiving Participant and a delivering Participant arising from ATON (including the rejection of a request for transfer or the refusal to confirm a returned request for transfer) shall rest solely upon those Participants.</u></p> <p><b><u>12.1.3 Client Instructions</u></b></p> <p><u>Before inputting a request for transfer, a receiving Participant shall obtain written instructions from the client. At the request of the delivering Participant, the receiving Participant shall make a copy of the client instructions available to the delivering Participant.</u></p> <p><b><u>12.1.4 Warranty and Confirmation</u></b></p> <p><u>Each Participant using ATON represents and warrants to each other Participant using ATON that:</u></p> <p><u>(i) each request for transfer made by it is made in accordance with the instructions of the client whose account is to be transferred; and</u></p> <p><u>(ii) each returned request for transfer with asset list made by it is accurate and complete.</u></p> <p><u>Each Participant acknowledges that information sent by it through ATON (including the information in any request for transfer or returned request for transfer with asset list) will be relied upon by the Participant receiving it, and each Participant sending such information shall indemnify and save harmless the Participant receiving such information against any and all losses, claims, damages, actions, causes of action or costs and expenses arising as a result of its reliance on any such information that is unauthorized, inaccurate or incomplete or as a result of its reliance on the Participant's representation as to the instructions of the client that is inaccurate.</u></p> <p><b><u>12.1.5 CDS Responsibility</u></b></p> <p><u>CDS is not responsible for the accuracy or completeness of the information that is transmitted through ATON.</u></p> <p><b><u>12.1.6 Information Legislation</u></b></p> <p><u>In this Rule 12, "Information Legislation" means the <i>Personal Information Protection and Electronic Documents Act</i> (Canada) and any other federal or provincial legislation providing for the privacy or protection of personal or individual information, as any such Acts are amended from time to time. Each Participant using ATON represents and warrants to CDS and to each other Participant using ATON, and CDS represents and warrants to each Participant using</u></p>	<p>Participant shall arrange for the delivery of any assets identified as being delivered OTC. This Rule 12 does not apply to the transfer of assets through the identified clearing institutions.</p> <p>(e) dispute resolution</p> <p>Responsibility for resolving any dispute between a receiving Participant and a delivering Participant arising from ATON (including the rejection of a request for transfer or the refusal to confirm a returned request for transfer) shall rest solely upon those Participants.</p> <p><b>12.1.3 Client Instructions</b></p> <p>Before inputting a request for transfer, a receiving Participant shall obtain written instructions from the client. At the request of the delivering Participant, the receiving Participant shall make a copy of the client instructions available to the delivering Participant.</p> <p><b>12.1.4 Warranty and Confirmation</b></p> <p>Each Participant using ATON represents and warrants to each other Participant using ATON that:</p> <p>(i) each request for transfer made by it is made in accordance with the instructions of the client whose account is to be transferred; and</p> <p>(ii) each returned request for transfer with asset list made by it is accurate and complete.</p> <p>Each Participant acknowledges that information sent by it through ATON (including the information in any request for transfer or returned request for transfer with asset list) will be relied upon by the Participant receiving it, and each Participant sending such information shall indemnify and save harmless the Participant receiving such information against any and all losses, claims, damages, actions, causes of action or costs and expenses arising as a result of its reliance on any such information that is unauthorized, inaccurate or incomplete or as a result of its reliance on the Participant's representation as to the instructions of the client that is inaccurate.</p> <p><b>12.1.5 CDS Responsibility</b></p> <p>CDS is not responsible for the accuracy or completeness of the information that is transmitted through ATON.</p> <p><b>12.1.6 Information Legislation</b></p> <p>In this Rule 12, "Information Legislation" means the <i>Personal Information Protection and Electronic Documents Act</i> (Canada) and any other federal or provincial legislation providing for the privacy or protection of personal or individual information, as any such Acts are amended from time to time. Each Participant using ATON represents and warrants to CDS and to each other Participant using ATON, and CDS represents and warrants to each Participant using</p>

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<p>ATON, that it will comply with all requirements applicable to it under the Information Legislation.</p> <p><b>12.2 ATON Participants in CDSX</b></p> <p><b>12.2.1 Limited Participation</b></p> <p><u>An ATON Participant shall be a limited purpose Participant as set out in this Rule 12.2, and its activities in CDSX shall be limited to receiving and delivering Securities and making payments in connection with the transfer of client accounts.</u></p> <p><b>12.2.2 Application of Rules</b></p> <p><u>This Rule 12.2 governs the relationship between CDS and each ATON Participant. An ATON Participant is a Participant and accordingly is subject to the Participant Rules. The liabilities and obligations of an ATON Participant arising from its participation as an ATON Participant shall survive the suspension, termination or withdrawal of the Participant from that role.</u></p> <p><b>12.2.3 Eligibility for Participation</b></p> <p><u>A Participant that is classified in a category other than that of ATON Participant may not act as a limited purpose ATON Participant. A Person is eligible to apply to become an ATON Participant if it is:</u></p> <p>(i) <u>a Regulated Financial Institution;</u></p> <p>(ii) <u>a mutual fund dealer that is a member of the Mutual Fund Dealers Association of Canada;</u></p> <p>(iii) <u>a mutual fund dealer that is regulated as such by a Regulatory Body that is a provincial securities commission; or</u></p> <p>(iv) <u>a broker, dealer, bank, savings bank, trust company, loan company or insurance company that trades in Securities or mutual funds and that is incorporated, established or formed under the laws of a jurisdiction situate outside of Canada or that is primarily regulated under the laws of a jurisdiction situate outside Canada.</u></p> <p><b>12.2.4 Qualifications for Participation</b></p> <p><u>An ATON Participant must satisfy all of the qualifications set out below:</u></p> <p>(i) <u>the Participant must be a subsisting legal entity under the laws of its jurisdiction of incorporation, establishment or formation and must not be in default of filing any notice, report or return under the laws of such jurisdiction or the laws of any other jurisdiction in which the Participant carries on business, the failure to file which could result in the Participant's ceasing to be duly incorporated, established or formed or in the cancellation of its authorization to carry on business;</u></p>	<p>ATON, that it will comply with all requirements applicable to it under the Information Legislation.</p> <p><b>12.2 ATON Participants in CDSX</b></p> <p><b>12.2.1 Limited Participation</b></p> <p>An ATON Participant shall be a limited purpose Participant as set out in this Rule 12.2, and its activities in CDSX shall be limited to receiving and delivering Securities and making payments in connection with the transfer of client accounts.</p> <p><b>12.2.2 Application of Rules</b></p> <p>This Rule 12.2 governs the relationship between CDS and each ATON Participant. An ATON Participant is a Participant and accordingly is subject to the Participant Rules. The liabilities and obligations of an ATON Participant arising from its participation as an ATON Participant shall survive the suspension, termination or withdrawal of the Participant from that role.</p> <p><b>12.2.3 Eligibility for Participation</b></p> <p>A Participant that is classified in a category other than that of ATON Participant may not act as a limited purpose ATON Participant. A Person is eligible to apply to become an ATON Participant if it is:</p> <p>(i) a Regulated Financial Institution;</p> <p>(ii) a mutual fund dealer that is a member of the Mutual Fund Dealers Association of Canada;</p> <p>(iii) a mutual fund dealer that is regulated as such by a Regulatory Body that is a provincial securities commission; or</p> <p>(iv) a broker, dealer, bank, savings bank, trust company, loan company or insurance company that trades in Securities or mutual funds and that is incorporated, established or formed under the laws of a jurisdiction situate outside of Canada or that is primarily regulated under the laws of a jurisdiction situate outside Canada.</p> <p><b>12.2.4 Qualifications for Participation</b></p> <p>An ATON Participant must satisfy all of the qualifications set out below:</p> <p>(i) the Participant must be a subsisting legal entity under the laws of its jurisdiction of incorporation, establishment or formation and must not be in default of filing any notice, report or return under the laws of such jurisdiction or the laws of any other jurisdiction in which the Participant carries on business, the failure to file which could result in the Participant's ceasing to be duly incorporated, established or formed or in the cancellation of its authorization to carry on business;</p>

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<p>(ii) <u>the Participant must hold, and must have done all things required to hold, every registration, licence, permit, authorization or approval required in connection with its business from each Regulatory Body having jurisdiction over the Participant; and</u></p>	<p>(ii) the Participant must hold, and must have done all things required to hold, every registration, licence, permit, authorization or approval required in connection with its business from each Regulatory Body having jurisdiction over the Participant; and</p>
<p>(iii) <u>the Participant and each of its partners, directors and officers must be in compliance with all applicable regulations, rules, orders or directions of each Regulatory Body having jurisdiction over the Participant, including such minimum capital requirements and financial stability standards as are applicable to the Participant.</u></p>	<p>(iii) the Participant and each of its partners, directors and officers must be in compliance with all applicable regulations, rules, orders or directions of each Regulatory Body having jurisdiction over the Participant, including such minimum capital requirements and financial stability standards as are applicable to the Participant.</p>
<p><u>In addition, an ATON Participant that is incorporated, established or formed under the laws of a jurisdiction situate outside Canada or that is primarily regulated under the laws of a jurisdiction situate outside Canada must satisfy all of the qualifications set out in Rule 2.2.5(b).</u></p>	<p>In addition, an ATON Participant that is incorporated, established or formed under the laws of a jurisdiction situate outside Canada or that is primarily regulated under the laws of a jurisdiction situate outside Canada must satisfy all of the qualifications set out in Rule 2.2.5(b).</p>
<p><b><u>12.2.5 Participation Standards</u></b></p>	<p><b>12.2.5 Participation Standards</b></p>
<p><u>When requested by CDS, an ATON Participant shall demonstrate to the satisfaction of CDS that it meets the standards set out in Rule 2.2.7.</u></p>	<p>When requested by CDS, an ATON Participant shall demonstrate to the satisfaction of CDS that it meets the standards set out in Rule 2.2.7.</p>
<p><b><u>12.2.6 Role of ATON Participant in CDSX</u></b></p>	<p><b>12.2.6 Role of ATON Participant in CDSX</b></p>
<p><u>An ATON Participant:</u></p>	<p>An ATON Participant:</p>
<p>(i) <u>may effect Settlements or hold Securities credited to its Ledger only in connection with the transfer of client accounts;</u></p>	<p>(i) may effect Settlements or hold Securities credited to its Ledger only in connection with the transfer of client accounts;</p>
<p>(ii) <u>may not effect Settlements that result in a negative balance in its Funds Account;</u></p>	<p>(ii) may not effect Settlements that result in a negative balance in its Funds Account;</p>
<p>(iii) <u>may not deposit or withdraw Securities;</u></p>	<p>(iii) may not deposit or withdraw Securities;</p>
<p>(iv) <u>may not make Lines of Credit available to other Participants;</u></p>	<p>(iv) may not make Lines of Credit available to other Participants;</p>
<p>(v) <u>may not use Lines of Credit made available by an Extender of Credit or by the Active Federated Participant;</u></p>	<p>(v) may not use Lines of Credit made available by an Extender of Credit or by the Active Federated Participant;</p>
<p>(vi) <u>may not use any CCP Function;</u></p>	<p>(vi) may not use any CCP Function;</p>
<p>(vii) <u>may not act as the ISIN Activator, Securities Validator, Entitlements Processor or CDSX Depository Agent for a Security; and</u></p>	<p>(vii) may not act as the ISIN Activator, Securities Validator, Entitlements Processor or CDSX Depository Agent for a Security; and</p>
<p>(viii) <u>may not act as a Custodian.</u></p>	<p>(viii) may not act as a Custodian.</p>
<p><b><u>12.2.7 Designated Custodial Participant</u></b></p>	<p><b>12.2.7 Designated Custodial Participant</b></p>
<p>(a) <u>appointment and termination</u></p>	<p>(a) appointment and termination</p>
<p><u>An ATON Participant may not use its CDSX Ledger to effect Settlements or to hold Securities unless it has a designated custodial Participant. An ATON Participant appoints a</u></p>	<p>An ATON Participant may not use its CDSX Ledger to effect Settlements or to hold Securities unless it has a designated custodial Participant. An ATON Participant appoints a</p>

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<p><u>designated custodial Participant by informing CDS of the proposed appointment. The appointment of a designated custodial Participant is not effective unless the designated custodial Participant informs CDS that it accepts the appointment. An ATON Participant terminates the appointment of a designated custodial Participant by informing CDS of the termination and the identity of the proposed replacement designated custodial Participant. A designated custodial Participant ceases to act as a designated custodial Participant for an ATON Participant by informing CDS of the proposed termination of the appointment. CDS informs the ATON Participant and the designated custodial Participant to be appointed or terminated of the proposed appointment or termination of appointment. The appointment of a designated custodial Participant is effective at the beginning of the Business Day after the designated custodial Participant accepts the appointment. The termination of appointment of a designated custodial Participant is effective at the beginning of the Business Day after the ATON Participant or the designated custodial Participant informs CDS of the termination.</u></p> <p><u>(b) transfer of securities</u></p> <p><u>By the end of each Business Day, an ATON Participant shall deliver all of the Securities credited to its CDSX Ledger to its designated custodial Participant. CDS may transfer Securities credited to the CDSX Ledger of an ATON Participant to the designated custodial Participant either (i) prior to certain entitlement events affecting such Securities, or (ii) if the ATON Participant fails to deliver its securities by the end of the Business Day.</u></p> <p><b><u>12.2.8 Exclusion from Credit Ring</u></b></p> <p><u>An ATON Participant is not a member of a Credit Ring.</u></p>	<p>designated custodial Participant by informing CDS of the proposed appointment. The appointment of a designated custodial Participant is not effective unless the designated custodial Participant informs CDS that it accepts the appointment. An ATON Participant terminates the appointment of a designated custodial Participant by informing CDS of the termination and the identity of the proposed replacement designated custodial Participant. A designated custodial Participant ceases to act as a designated custodial Participant for an ATON Participant by informing CDS of the proposed termination of the appointment. CDS informs the ATON Participant and the designated custodial Participant to be appointed or terminated of the proposed appointment or termination of appointment. The appointment of a designated custodial Participant is effective at the beginning of the Business Day after the designated custodial Participant accepts the appointment. The termination of appointment of a designated custodial Participant is effective at the beginning of the Business Day after the ATON Participant or the designated custodial Participant informs CDS of the termination.</p> <p>(b) transfer of securities</p> <p>By the end of each Business Day, an ATON Participant shall deliver all of the Securities credited to its CDSX Ledger to its designated custodial Participant. CDS may transfer Securities credited to the CDSX Ledger of an ATON Participant to the designated custodial Participant either (i) prior to certain entitlement events affecting such Securities, or (ii) if the ATON Participant fails to deliver its securities by the end of the Business Day.</p> <p><b>12.2.8 Exclusion from Credit Ring</b></p> <p>An ATON Participant is not a member of a Credit Ring.</p>