

13.1.4 CDS Rule Amendment Notice – Technical Amendments to CDS Procedures – Funds Transfer

THE CANADIAN DEPOSITORY FOR SECURITIES LIMITED ("CDS")

TECHNICAL AMENDMENTS TO CDS PROCEDURES

FUNDS TRANSFER

NOTICE OF EFFECTIVE DATE

A. DESCRIPTION OF THE RULE AMENDMENT

Background

In December, 2005, CDS's Regulators granted their non-disapproval/approval for technical amendments to the CDS Participant Rules to allow for the Free Payment of Funds from extenders of credit or active federated Participants to CDS for the purpose of making Entitlements Payments. The technical amendments to CDS Procedures are proposed to automate the process by which such financial institutions convert an entitlement payment to an acceptable payment in CDSX and receive a corresponding credit in their Funds Account.

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

<http://www.cds.ca/cdshome.nsf/Pages/-EN-Documentation?Open>

Description of Proposed Amendments

The proposed technical amendments to CDS Procedures will, in certain situations, exempt an extender of credit or active federated Participant from conditions which must be met prior to making a Funds Transfer. The proposed amendments contemplate a circumstance in which an entitlement payment is converted to an acceptable payment (i.e., either LVTS or Fedwire) by an extender of credit and/or active federated participant through a funds transfer. Under current CDS Procedures, such a conversion is rejected in the absence of a positive funds account balance (either before or after the funds transfer).

The proposed technical amendments allow extenders of credit and/or active federated participants to process funds transfer for entitlement payments *without* having a positive funds account balance in Canadian dollars provided three conditions are met: first, the funds transfer must be to a CDS CUID (Customer Unit Identifier); second, the funds transfer must pass the Aggregate Collateral Value ("ACV") Edit; and third, the transfer amount must not exceed available funds. Available funds, in this circumstance, are the sum of the Funds Account balance, available lines of credit, and the remaining space under the System Operating Cap for the transferor.

The proposed technical amendments allow extenders of credit and/or active federated participants to process a funds transfer for U.S. Dollar entitlement payments *without* having a positive funds account balance in U.S. dollars provided two conditions are met: first, the funds transfer must be to a CDS CUID; and second, the transfer amount must not exceed the available U.S. Dollar funds edit. Available U.S. Dollar funds, in this circumstance, are the sum of a U.S. Dollar funds account balance and the remaining space under the U.S. Dollar System Operating Cap for the transferor. The ACV edit does not apply to transactions in U.S. Dollars as the ACV for a security with a U.S. funds market price is converted to Canadian Dollars.

B. REASONS FOR TECHNICAL CLASSIFICATION

The amendments proposed pursuant to this Notice are considered technical amendments as they are amendments which are required to ensure consistency as between CDS Participant Rules and CDS Procedures. CDS Participant Rule 6.6.8 was amended, in part, to clarify that the restrictions on free payments and funds transfers apply only as between CDS Participants and not between a Participant and CDS.

C. EFFECTIVE DATE OF THE RULE

Pursuant to Appendix A ("Rule Protocol Regarding The Review And Approval Of CDS Rules By The OSC") of the Recognition and Designation Order, as varied and restated, these amendments will be effective on August 14th, 2006.

D. QUESTIONS

Questions regarding this notice may be directed to:

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