

13.1.2 CDS Rule Amendment Notice – Technical Amendments to CDS Procedures – Regulation SHO

THE CANADIAN DEPOSITORY FOR SECURITIES LIMITED ("CDS")

TECHNICAL AMENDMENTS TO CDS PROCEDURES

REGULATION SHO

NOTICE OF EFFECTIVE DATE

A. DESCRIPTION OF THE RULE AMENDMENT

Background

On January 26th, 2006, the Board of Directors of CDS approved amendments to the CDS Participant Rules to facilitate adherence to Regulation SHO by CDS Participants utilizing Cross-Border Services (as that term is defined in Section 1.2 of the CDS Participant Rules) offered by CDS. CDS requested regulatory approval for the proposed amendments to the Participant Rules on January 27th, 2006, with the intention of making both the Rule and Procedure amendments effective as of August 14th, 2006. Specifically, the amendments to the CDS Participant Rules proposed to and approved by the CDS Board of Directors included the following:

- A provision granting CDS absolute discretion to close out a fail-to-deliver position in a threshold security held by one of its Participants, and outlining the responsibility of the Participant for the costs resulting from such a close-out;
- A provision granting CDS clear and explicit authority to release information pertaining to a Participant's compliance with Regulation SHO to the Participant's primary regulatory body and to any Self Regulatory Organization ("SRO") of which the Participant is a member;
- A provision granting CDS discretion to restrict a Participant's access to CDS services in the event that a Participant does not comply with the CDS Participant Rule pertaining to Regulation SHO.

The proposed amendments to CDS Procedures are made in order to ensure that CDS Procedures are consistent with CDS Participant Rules. The proposed amendments relate to the availability of compliance reports and the procedure by which CDS will close out outstanding Continuous Net Settlement ("CNS") short positions in applicable threshold securities.

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 amendments to Chapter 1 of the *New York Link Participant Procedures* consist of the addition of Section 1.8 and its subsections and section 1.9 to that chapter. In particular, the proposed amendments include the following:

- An introduction to the requirements imposed on CDS and its Participants by Regulation SHO, including the scope of its application, CDS' obligations to provide certain reports to Participants and Self-Regulatory Organizations in furtherance of the stated purpose of Regulation SHO (section 1.8);
- A section which details how CDS will provide the Projected Threshold Close-Out Report – New York Link Service to Participants and to SROs or a Participant's primary regulator (section 1.8.1);
- A section which details CDS Procedure in the event that a current threshold security list is not available from primary sources, including the re-calculation of the threshold age (section 1.8.1);
- A section which outlines the CDS procedure and timeline for closing out a CNS short position in a security that has been identified as a threshold security (section 1.9).

B. REASONS FOR TECHNICAL CLASSIFICATION

The amendments proposed pursuant to this Notice are considered by CDS to be technical amendments as they are made in order to ensure consistency with CDS Participant Rules and compliance with the regulatory requirements of the United States Securities and Exchange Commission.

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 on July 12, 2005, these amendments will be effective on August 14, 2006.

D. QUESTIONS

Questions regarding this notice may be directed to:

Tony Hoffmann
Legal Counsel
The Canadian Depository for Securities Limited
85 Richmond Street West
Toronto, Ontario M5H 2C9

Telephone: 416-365-3768
Fax: 416-365-1984
e-mail: attention@cds.ca

JAMIE ANDERSON
Senior Legal Counsel