

Chapter 13

SROs, Marketplaces and Clearing Agencies

13.3 Clearing Agencies

13.3.1 CDS – Notice and Request for Comments – Material Amendments to CDS Procedures – Modification of Non-Financial Details on Blind Repo Trades

CDS CLEARING AND DEPOSITORY SERVICES INC. (CDS®)

MATERIAL AMENDMENTS TO CDS PROCEDURES

MODIFICATION OF NON-FINANCIAL DETAILS ON BLIND REPO TRADES

REQUEST FOR COMMENTS

A. DESCRIPTION OF THE PROPOSED CDS PROCEDURE AMENDMENTS

On December 10, 2012, CDS Clearing and Depository Services Inc. (CDS) and the Canadian Derivatives Clearing Corporation (CDCC) jointly implemented system changes to facilitate blind fixed income repo trading. These amendments address an industry requirement submitted by the Investment Industry Association of Canada (IIAC) Fixed Income CCP Steering Committee to modify the interface between inter-dealer brokers (IDB) and participants with respect to submitting blind repo trades to CDS for subsequent novation and netting at CDCC. Specifically, parties to a blind repo trade require the ability to modify the non-financial details of the trade submitted by the IDBs.

Blind repo trading activity is facilitated by the IDB. When the IDB finds a borrower and lender, the IDB submits the details of that repo transaction to CDS using non-exchange trade messaging facilities. Both legs of the repo are submitted against CDCC. The IDB is required to link the trades constituting the repo transaction by adding an identical repo tag number to all related trades. These trades are set up in CDS's settlement system, CDSX, as confirmed trades with the participant's settlement control indicator set to "N" (no). The participant confirms the details of the repo transaction by updating their settlement control indicator to "Y" (yes) on all related trades. When confirmed, CDSX reports the blind repo trades to CDCC for subsequent novation.

At this time, the only field that can be modified by the participant party to a blind repo trade is the settlement control indicator. During the community testing phase, however, participants determined that they require additional information associated with the trades to efficiently link the trades in their internal systems. The ability to update the trade tag number and the trade internal account were identified as being critical. Currently, participants provide the internal account to the IDBs to report on the blind repo trades on their behalf.

The community agreed that the messaging protocol for IDBs be changed such that the parties to a blind repo have the ability to modify all of the non-financial fields of a trade in addition to the settlement control indicator. The non-financial data elements include: tag number, internal account, account and memo fields.

The ability to modify these fields is consistent with the rules for modifying other non-exchange trades in CDSX.

B. NATURE AND PURPOSE OF THE PROPOSED CDS PROCEDURE AMENDMENTS

The proposed amendment addresses a gap in the initial design related to the processing and tracking of blind repo trades submitted to CDSX.

C. IMPACT OF THE PROPOSED CDS PROCEDURE AMENDMENTS

The impact of the proposed amendments will be limited to CDS participants that engage in blind repo fixed income trading. Specifically, the proposed procedure amendments will allow the parties to a blind repo transaction the ability to systematically manage blind repo trades reported to CDSX by an IDB.

C.1 Competition

The proposed change will not disadvantage any CDS participant. Rather, the proposed amendments constitute an enhancement to an existing service that will assist all participants who are active in the blind repo market in achieving greater processing efficiencies.

C.2 Risks and Compliance Costs

CDS Risk Management has determined that the proposed amendments will not change the risk profile of CDS or its participants.

The proposed amendments will allow the participant to manage their own non-financial details on blind repo trades for their internal processing. The amendments do not change the fact that, to settle in CDSX, the corresponding CDCC transactions must pass all of the risk edits. Furthermore, since CDS does not act as the central counterparty (CCP) to the corresponding transactions, there is no incremental risk for CDS. Since the service being provided by CDS is not a CCP service, the risk edits mitigate the associated risk.

C.3 Comparison to International Standards – (a) Committee on Payment and Settlement Systems of the Bank for International Settlements, (b) Technical Committee of the International Organization of Securities Commissions, and (c) the Group of Thirty

Principle #21 – Efficiency and effectiveness – of the new international standards for payment, clearing and settlement systems set out in the CPSS/IOSCO report *Principles for Financial Market Infrastructures*¹ states that: financial market infrastructure such as CDS “should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded; and use of technology and procedures”.

This development supports this principle in so far as it meets the needs of its participants by providing infrastructure that will facilitate its fixed income clearing activities.

D. DESCRIPTION OF THE PROCEDURE DRAFTING PROCESS

D.1 Development Context

On December 10, 2012 CDS implemented changes to CDSX which deliver eligible blind repo transactions in debt securities to CDCC’s fixed income central counterparty service (SOLA) for clearing. During community testing, industry participants requested that the IIAC project management office consider a change permitting participants to modify the non-financial details of blind repo trades. A change request was approved by the IIAC Fixed Income CCP Steering Committee, on October 11, 2012. The Steering Committee agreed to defer the change in order to avoid delays to the December 10, 2012 implementation date. This change request was subsequently approved by the CDS Strategic Development Review Committee (SDRC) on November 29, 2012.

D.2 Procedure Drafting Process

CDS Procedure Amendments are reviewed and approved by CDS’s Strategic Development Review Committee (“SDRC”). The SDRC determines or reviews, prioritizes and oversees CDS-related systems development and other changes proposed by participants and CDS. The SDRC’s membership includes representatives from a cross-section of the CDS participant community, and it meets on a monthly basis.

These amendments were reviewed and approved by the SDRC on February 28, 2013.

D.3 Issues Considered

There were no issues raised related to this change.

D.4 Consultation

The proposed requirement was reviewed and discussed with the IIAC Fixed Income CCP Steering Committee. The change in requirement was identified through the project change request process. CDS was consulted and was asked to propose a technical solution that was consistent with general CDSX functionality. The agreed solution was presented to the IIAC Fixed Income CCP Steering Committee for approval.

This development was later presented to and approved by the SDRC.

¹ The report can be found at <http://www.bis.org/pub/cpss101.htm>

D.5 Alternatives Considered

The proposed solution is consistent with existing CDSX functionality; no alternatives were considered.

D.6 Implementation Plan

The proposed procedure amendments and the scheduled date of implementation have been communicated regularly to CDS participants through the SDRC and its subcommittees, as well as through Customer Service relationship meetings. CDS will distribute a bulletin to all CDS participants the week before implementation reminding them of the upcoming changes and confirming the effective date of those changes.

CDS is recognized as a clearing agency by the Ontario Securities Commission pursuant to section 21.2 of the Ontario *Securities Act* and by the British Columbia Securities Commission pursuant to section 24(d) of the British Columbia *Securities Act*. The Autorité des marchés financiers has authorized CDS to carry on clearing activities in Québec pursuant to sections 169 and 170 of the Québec *Securities Act*. In addition CDS is 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, the British Columbia Securities Commission, and the Bank of Canada will hereafter be collectively referred to as the “Recognizing Regulators”.

The amendments to Participant Procedures may become effective upon approval of the amendments by the Recognizing Regulators following public notice and comment. Implementation of this initiative is planned for June 8, 2013.

E. TECHNOLOGICAL SYSTEMS CHANGES

E.1 CDS

The messaging protocol for blind repo trades reported to CDSX by IDBs will be changed such that the parties to a blind repo have the ability to modify all of the non-financial fields of a trade in addition to the settlement control indicator. The non-financial data elements are:

- Tag number
- Internal account
- Account
- Memo

E.2 CDS Participants

CDS participant’s systems may be required to make system changes to submit modifications to non-financial details on blind repo trades.

E.3 Other Market Participants

Where a CDS participant’s systems are operated by a third-party vendor, the vendor may be required to make similar modifications to systems as appear in section E.2, above.

F. COMPARISON TO OTHER CLEARING AGENCIES

The proposed amendments are an enhancement to an existing service that will assist all participants participating in the blind repo market in achieving greater processing efficiencies.

G. PUBLIC INTEREST ASSESSMENT

CDS has determined that the proposed amendments are not contrary to the public interest.

H. COMMENTS

Comments on the proposed amendments should be in writing and submitted within 30 calendar days following the date of publication of this notice in the Ontario Securities Commission Bulletin, the British Columbia Securities Commission Bulletin or the Autorité des marchés financiers Bulletin to:

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Copies should also be provided to the Autorité des marchés financiers, the British Columbia Securities Commission and the Ontario Securities Commission by forwarding a copy to each of the following individuals:

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

I. PROPOSED CDS PROCEDURE AMENDMENTS

Access the proposed amendments to the CDS Procedures on the User documentation revisions web page (<http://www.cds.ca/cdsclearinghome.nsf/Pages/-EN-UserDocumentation?Open>).