

Chapter 13

SROs, Marketplaces and Clearing Agencies

13.3.1 CDS – Notice and Request for Comments – Material Amendments to CDS Rules – Termination of Finet

CDS CLEARING AND DEPOSITORY SERVICES INC. (CDS®)

MATERIAL AMENDMENTS TO CDS RULES

TERMINATION OF FINET

REQUEST FOR COMMENTS

A. DESCRIPTION OF THE PROPOSED CDS RULE AMENDMENTS

On April 15, 2013, the CDS Board of Directors approved Rule amendments in order to proceed with the termination of FINet. It is the intent of market participants that FINet be replaced by the fixed income netting service (“CDCS”) operated by the Canadian Derivatives Clearing Corporation (“CDCC”).

FINet is a CDS central counterparty (“CCP”) function under which eligible fixed income transactions are cleared, and subsequently submitted for settlement.¹ FINet was implemented in April, 2009. It replaced DetNet which ran on a technology platform that no longer met CDS’s architecture standards.

Currently, a wide range of fixed income securities can already be cleared through CDCS. Confirmed trades reported to CDS as “SNS” (intended for submission to CDCS) are automatically routed to CDCS for novation and netting, after which the resulting novated trades are reported back by CDCC to CDS for settlement within CDSX® on a trade for trade basis between CDCC and another Participant.

Once it has been fully developed, CDCS will render FINet redundant. CDCS will offer the same functionality as FINet but in a more effective and efficient manner. As additional securities become eligible for submission to CDCS, submissions to FINet will be reduced, and ultimately all trades in fixed income securities for clearing will be submitted to CDCS. At that time, FINet will be closed to new trades, and the Participant obligations resulting from transactions that were previously accepted into FINet will be maintained and closed out within FINet.

The proposed amendments reflect the termination of FINet by the removal of all references to FINet in the CDS Participant Rules, and by making some further, limited, consequential changes in those Rules. The amendments will become effective at the time that CDS determines that all Participant transactions in FINet have been settled and no further obligations exist from any trade submitted to, or position maintained in, FINet.

B. NATURE AND PURPOSE OF THE PROPOSED CDS RULE AMENDMENTS

The proposed amendments remove all references to FINet in the CDS Participant Rules. At the time FINet is terminated, current references to FINet will be redundant.

C. IMPACT OF THE PROPOSED CDS RULE AMENDMENT

C.1 Competition

Stakeholders in the Canadian financial services market chose CDCC to provide the services currently provided by FINet. Since the viability of those services is directly related to the degree to which all relevant transactions are captured by the facility offering the services, multiple facilities offering the same services are not desirable. The stakeholders have determined that there are operational inefficiencies in FINet which CDCS has been designed to overcome. As described further below, any Participants not able to directly use CDCS have been specifically advised of the pending termination of FINet.

¹ Eligible fixed income securities for FINet are those issued by the Government of Canada, provincial governments, and certain government-guaranteed securities, as detailed in CDS’s Trade and Settlement Procedures, s. 5.3.

C.2 Risks and Compliance Costs

CDS does not anticipate any risks to CDS associated with the termination of FINet. All existing risk and operational management parameters, and related Participant Rules and Procedures, will remain fully effective until such time as there are no further obligations under, or risks associated with, FINet. Once no further obligations exist in FINet, any risks associated with operation of FINet will be eliminated. FINet operates as a fully autonomous system within the operations and risk parameters of CDS. Eliminating it from the operations of CDS will not affect the risk profile of CDS.

CDS does not expect that the proposed Rule amendments will result in any compliance costs for CDS, its Participants, or other market participants.

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

As stated in 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*,² a financial market infrastructure “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”.

The industry selected CDCC to provide the fixed income netting facility for Canada. FINet has, consequently, become redundant.

No other comparisons to international standards were identified.

D. DESCRIPTION OF THE RULE DRAFTING PROCESS

D.1 Development Context

In December 2009, the Investment Industry Association of Canada (“IIAC”) received a mandate from its membership to develop a new CCP for Canada’s fixed income securities traded in the cash and repurchase markets. Following a request-for-proposal process, CDCC was selected by IIAC to develop this CCP and CDS was requested, by the IIAC Fixed Income CCP Steering Committee, to modify CDS’s systems and procedures to accommodate the new CCP. The implementation of CDCC’s fixed income netting facility has, therefore, made FINet redundant.

The transition from FINet to the CDCC fixed income netting service is being implemented in phases:

- Phase 1 was implemented February 21, 2012. This phase addressed repurchase agreements.
- Phase 2 was implemented on two dates: December 10, 2012 in relation to blind inter-dealer broker repo activity and March 11, 2013 in relation to fixed income cash trades.
- Phase 3 involves new functionality for handling general collateral repos, and will be implemented on a schedule to be determined.

D.2 Rule Drafting Process

Each amendment to the CDS Participant Rules is reviewed by CDS’s Legal Drafting Group (“LDG”). The LDG is a Participant committee that 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.

The LDG reviewed the proposed Rule amendments at its meeting on March 21, 2013. The proposed Rule amendments were then reviewed and approved by the Board of Directors of CDS Ltd. on April 15, 2013.³

² The report can be found at <http://www.bis.org/publ/cpss101.htm>.

³ Pursuant to a unanimous shareholder agreement between The Canadian Depository for Securities Limited (“CDS Ltd.”) and CDS, effective as of November 01, 2006, CDS Ltd., which acts under the supervision of its Board of Directors, assumed all rights, powers, and duties of the CDS Board of Directors.

D.3 Issues Considered

As the decision to migrate fixed income securities clearing from FINet to CDCS was made by the industry, the only Rule drafting issue to consider was to redact all references to the same from the CDS Participant Rules and make any consequent amendments resulting from that redaction (e.g., in section references and grammatical construction).

D.4 Consultation

Industry members through IIAC requested the changes in fixed income netting services that resulted in the redundancy of FINet.

D.5 Alternatives Considered

No alternatives were considered. FINet will no longer be required for fixed income clearing as result of the implementation of CDCS.

D.6 Implementation Plan

CDS is recognized as a clearing agency by the Ontario Securities Commission pursuant to section 21.2 of the Ontario *Securities Act*, by the *Autorité des marchés financiers* ("AMF") pursuant to Section 169 of the Quebec *Securities Act*, and by the British Columbia Securities Commission pursuant to Section 24(d) of the British Columbia *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 *Autorité des marchés financiers*, the Bank of Canada, the British Columbia Securities Commission and the Ontario Securities Commission are collectively referred to as the "Recognizing Regulators".

The amendments to Participant Rules may become effective upon approval of the amendments by the Recognizing Regulators following public notice and comment or upon such later date as CDS determines, following appropriate notice pursuant to the CDS Participant Rules.

Amendments to CDS Procedures and its Risk Model are under development and will be completed before trades become ineligible for submission to FINet. It is noted that based on current data, the period between the closing of FINet to new trades and termination of FINet could be as short as 5 to 10 business days.

E. TECHNOLOGICAL SYSTEMS CHANGES

E.1 CDS

CDS does not anticipate major systems changes required as a result of the termination of FINet. Minor systems changes required include the removal of the FINet eligibility option on CDSX screens, the discontinuance of FINet batch jobs, and report scheduling changes.

E.2 CDS Participants

Participants currently submitting fixed income trades to FINet will not be required to amend their systems to submit CDCC-eligible trades to CDCS. CDCC-eligible fixed income trades are already being submitted under the "SNS" coding established for this purpose in CDSX. If any Participant intends for a fixed income trade to settle on a "trade-for-trade" basis outside of CDCC, the Participant enters "TFT" as the mode of settlement.

Of the twelve Participants subscribed to FINet, two do not meet the membership criteria of CDCC. Of those two, one has already made alternative arrangements to handle its transactions, and the other is considering possible alternatives, which include TFT settlement and using a correspondent clearer.

E.3 Other Market Participants

Any market participant that wishes to directly clear its fixed income trades will be required to fulfill existing participation/membership requirements of both CDS and CDCC. In the event that a market participant does not qualify for Participation at CDS or membership at CDCC, such a participant will be required to engage with a correspondent clearing Participant or member, as the case may be.

Inter-Dealer Brokers, which are not currently CDS Participants, maintain settlement agent relationships with CDS Participants, and are not expected to be required to make technological systems changes.

F. COMPARISON TO OTHER CLEARING AGENCIES

As this is a termination of FINet, a comparison analysis to other clearing agencies is not possible.

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 to:

Jess Hungate
Legal Department
CDS Clearing and Depository Services Inc.
85 Richmond Street West
Toronto, Ontario M5H 2C9

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

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

M^e Anne-Marie Beaudoin
Secrétaire générale
Autorité des marchés financiers
800, square Victoria, 22^e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3

Télécopieur: (514) 864-6381
Courrier électronique: consultation-en-cours@lautorite.qc.ca

Manager, Market Regulation
Market Regulation Branch
Ontario Securities Commission
22nd Floor, Box 55
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Toronto, Ontario, M5H 3S8

Fax: 416-595-8940
e-mail: marketregulation@osc.gov.on.ca

Doug MacKay
Manager, Market and SRO Oversight
British Columbia Securities Commission
701 West Georgia Street
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Vancouver, B.C. V7Y 1L2

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

I. PROPOSED CDS RULE AMENDMENTS

Appendix "A" contains the text of current CDS Participant Rules marked to reflect proposed amendments.

Appendix "B" contains the text of CDS Participant Rules including the proposed amendments, in a clean (unmarked) version.

JAMIE ANDERSON
CHIEF LEGAL OFFICER
CDS CLEARING AND DEPOSITORY SERVICES INC.

[Editor's Note: Appendix A and Appendix B are reproduced on the following internally numbered pages. Bulletin pagination resumes at the end of Appendix B.]

CDS Participant Rules

(Release 2013-~~02~~XX-~~26~~XX)

~~February 26,~~ Month XX, 2013

"Bank of Canada" means the central bank of Canada formed under the *Bank of Canada Act* (Canada).

"Board of Directors" or "Board" means the Board of Directors of CDS.

"Bond Rating Service" means a service providing to the public a rating of the short-term and long-term debt issued by Issuers (including Participants) and includes:

- (i) "DBRS" Dominion Bond Rating Service;
- (ii) "Moody's" Moody's Bond Record; and
- (iii) "S&P" The Bond Guide issued by Standard & Poor's Rating Services.

"Book Entry Payment Method" means the process described in Rule 8.4 by which the payment obligations owing between a Participant and CDS may be discharged on Payment Exchange.

"Business Day" means any day on which the CDSX system is available to process Transactions.

"CA Liability Record" has the meaning ascribed to that term in Rule 6.8.5.

"CALMS" means the Corporate Action Liability Management Service described in Rule 6.8.5.

"CBA" means The Canadian Bankers Association.

"CCP Cap" means the threshold amount with respect to the CCP Functions that if exceeded requires the pledging of CCP Collateral, which threshold amount is established in accordance with Rule 5.14.

"CCP Collateral" means CCP Collateral as the term is defined in Rule 5.2.4.

"CCP Contributions Total" means an amount determined in accordance with the Procedures as described in Rule 5.14 taking into account the Contributions required to be made by the Participant to the Funds for all of the CCP Functions used by it.

"CCP Function" means ~~either the CNS or FINet Functions~~ [Function](#) for processing Trades by novation and netting prior to Settlement.

"CCP Withdrawal Option" means the CCP Withdrawal Option described in Rule 9.4.

"CDCC" means the Canadian Derivatives Clearing Corporation.

"CDCC Interface" means the process by which CDS reports Trades identified with a Mode of Settlement of SNS to CDCC for clearing prior to such Trades being settled through the CDS Services.

as determined by the Participant's auditors in the financial statements filed by the Participant with the Canadian Regulatory Body that has primary jurisdiction over the Participant, provided that the Board may from time to time determine how Capital shall be calculated for the purposes of a particular Rule

"Capped Participant" means a Participant who is an Extender, Settlement Agent, Active Federated Participant or RCP Receiver and who has a System-Operating Cap.

"Category Credit Ring" means one of the groups of Participants described in Rule 5.9 that are classified into a particular category and that guarantee the payment to CDS of certain obligations of all other Members of that Category Credit Ring. "Category Credit Ring Agreement" means one of the common form agreements among all Members of certain Category Credit Rings referred to in Rule 2.3.3. "Category Credit Ring Collateral" means the collateral described in Rule 5.11.2 that is subject to Category Credit Ring Security Interests. "Category Credit Ring Security Interests" means the security interests granted by a Member of a Category Credit Ring described in Rule 5.11.2.

"Central Counterparty Obligation" means the reciprocal obligations and rights between CDS and a Participant as the result of the processing of Trades, prior to Settlement, in the CNS ~~or FINet~~ Function. Under a Central Counterparty Obligation, (i) either CDS or the Participant has an obligation to deliver Securities and a right to receive payment for such delivered Securities, and (ii) the other party has the corresponding right to receive Securities and the corresponding obligation to make payment. A Central Counterparty Obligation is a CNS Obligation ~~or a FINet Obligation~~.

"Collateral" means, with respect to a suspended Participant:

- (i) its Contributions to a Collateral Pool;
- (ii) its Contributions to a Fund;
- (iii) its Settlement Service Collateral;
- (iv) its Specific Collateral; and
- (v) its CCP Collateral.

"Collateral Account" means an Account to record Securities and funds that have been Pledged to the Participant and that are held by CDS for that pledgee Participant. A "Restricted Collateral Account" is a Collateral Account that is a Risk Account. "Collateral Administration Ledger" means a CDS Ledger used for the management and control of collateral held by CDS, as described in Rule 5.3. "Collateral Pool" means one of the collateral pools established by certain Category Credit Rings pursuant to Rule 5.12.

"Collateral Pool Contribution" means the contribution made to its Collateral Pool by a Member of a Category Credit Ring.

"Fedwire" means the system for the transfer of money operated by the Federal Reserve System of the United States of America.

"Final Contribution" means the Fund Contribution, to the Fund for the CCP Function from which the Withdrawing CCP Participant intends to withdraw, which is the total of the Withdrawal Contribution and the Original Contribution of the Withdrawing CCP Participant, as calculated pursuant to Rule 9.4.7.

"Financial Institution" means any one of the following:

- (i) a bank named in Schedule I or II to the *Bank Act* (Canada);
- (ii) an institution regulated pursuant to an *Act respecting financial services cooperatives* (Québec);
- (iii) a trust company or corporation, a loan company or corporation, a credit union, a savings and credit union or a credit union central, which is incorporated and regulated under the laws of Canada or any province or territory thereof; or
- (iv) a crown corporation created pursuant to and governed by the *Alberta Treasury Branches Act* (Alberta).

~~"FINet" means the Function described in Rule 7.3 for processing certain Trades prior to Settlement.~~

~~"FINet Obligation" means a Central Counterparty Obligation between CDS and a Participant that is calculated as the result of the processing of Trades, prior to Settlement, in the FINet Function.~~

~~"FINet Real Time Settlement Process" means one of the Settlement processes described in Rule 7.5~~

"Foreign Custodian" means a Person who has been appointed by CDS to perform the duties of a Foreign Custodian for CDS with respect to Securities held for Participants in the Depository Service.

"Foreign Institution" means a Person:

- (i) 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; and
- (ii) that is a broker or dealer trading in Securities, a bank or savings bank, a trust company or corporation, a loan company or corporation, an insurance company or corporation, a securities clearing corporation or depository, a central bank or any other Person trading in Securities.

"Formula Amount" means a factor used in the calculation of the System-Operating Cap of a Capped Participant, as described in Rule 5.10.

"Function" means a method of processing Trades in respect of a Service. CDS may make available more than one Function in respect of any given Service. Functions include the Functions described in the Procedures and the CNS ~~and FINet Functions~~ Function for processing Trades by novation and netting prior to Settlement.

"Fund" means one of the Funds established pursuant to Rule 5.7 with respect to a Service or Function.

"Fund Contribution" means the contribution made by each Fund Member pursuant to Rule 5.8, in which the Fund Member grants a security interest in favour of CDS.

"Fund Credit Ring" means one of the groups of Participants described in Rule 5.7 that are Members of a Fund and that guarantee the payment to CDS of certain obligations of all other Members of that Credit Ring.

"Fund Member" means a Participant who makes use of the Service or Function in respect of which a Fund is established and that is required to contribute to such Fund.

"funds" means the obligation owing to CDS by a Participant or by CDS to a Participant, which is evidenced by a negative or positive balance respectively in that Participant's Funds Account.

"Funds Account" means an Account to record by currency the net amount from time to time owing between CDS and the Participant arising from the Participant's use of the Depository Service and the Settlement Service.

"Funds Transfer" means a Transaction between any two Participants, or between CDS and any Participant, by which the Funds Account of one of them is debited with a certain amount and the Funds Account of the other is credited with a corresponding amount.

"General Account" means a Securities Account that is a Risk Account.

"Government Body" means the Government of Canada or the Government of any province or territory of Canada or any municipality in Canada, or any of their agencies.

"Hypothec" has the meaning set forth in Rule 5.2.9. "Inter-Surety Agreement" means the agreement made among all Sureties referred to in Rule 2.4.9.

"ISIN Activator" means a Participant who performs the activities of an ISIN Activator set out in Rule 2.5.3.

"Issuer" includes a Person other than an individual that meets one or more of the following criteria (including, where applicable, a Participant):

"User" means an individual who on behalf of a Participant is given the ability (whether by the assignment of an Authentication Mechanism or otherwise) to access computer processing activities for real time or batch Services.

"User Administrator" means an individual appointed by a Participant to give individual Users the ability on behalf of the Participant to access computer processing activities for real time or batch Services.

"User Guide" means one of the user guides in the form prescribed by CDS from time to time for a Service, and includes the on-line help terminal video displays made available as part of the systems which are accessed in accordance with the User Guides. and

"Value Date" means the date on which the parties to a Trade ~~or a FINet~~ Obligation have agreed that the Trade ~~or FINet~~ Obligation is to be Settled.

"Withdrawal Account" means an Account to record Securities held by CDS for the Participant, with respect to which the Participant has made a withdrawal request that has not yet been confirmed.

"Withdrawal Contribution" means the additional Fund Contribution to the Fund for the CCP Function in respect of which the Withdrawing CCP Participant has exercised the CCP Withdrawal Option, which is made by the Withdrawing CCP Participant upon giving notice to CDS of its exercise of the CCP Withdrawal Option.

"Withdrawing CCP Participant" means a Participant who has exercised the CCP Withdrawal Option.

agreement between a securities and derivatives clearing house and a clearing member within the meaning of section 13.1 of that Act.

1.3.13 Eligible Financial Contract

CDS and each Participant acknowledge that:

- (i) a Central Counterparty Obligation constitutes an eligible financial contract between CDS and the Participant;
- (ii) the obligations of a Participant and of CDS arising from the Settlement of a Trade or any other Transaction, for CDS to deliver to the Participant the Securities shown in the Participant's Securities Account and for the Participant to make or receive payment on Payment Exchange as recorded in the Participant's Funds Account, constitute an eligible financial contract between CDS and the Participant;
- (iii) the obligations of a Participant and of CDS arising from the Cross-Border Services constitute an eligible financial contract between CDS and the Participant; and
- (iv) each of the Participant Agreement, the Rules and the Legal Documents constitute master agreements in respect of such eligible financial contracts and accordingly are also eligible financial contracts between CDS and each Participant, and between Participants.

The Rules and the Legal Documents shall be interpreted so as to ensure that CDS or a Participant, as the case may be, is accorded the rights and powers of a party to an eligible financial contract pursuant to the *Bankruptcy and Insolvency Act*, the *Companies' Creditors Arrangement Act*, the *Winding-Up and Restructuring Act*, the *Canada Deposit Insurance Corporation Act* or any similar legislation.

1.3.14 Finality

Entries are made in the Ledgers maintained for Participants and for CDS to record Transactions involving two Participants or CDS and a Participant, including the deposit, withdrawal and delivery of Securities, the novation and netting of Transactions through the CNS Function ~~and the FINet Function~~, and the making of payment. Such entries are final and irrevocable when made. The settlement of a payment obligation between CDS and a Participant is final and irrevocable once made, and however made, including by payment to or from an account of CDS at Bank of Canada, by a payment message through Fedwire, by payment to or from an account of CDS at its banker for any Cross-Border Service, or by payment to or from the Participant's Qualified Banker or Designated Payment Agent. Such final and irrevocable entries and payments cannot be deleted, adjusted, reversed, repaid or set aside. CDS and the Participants shall be entitled to an accounting with respect to any Transaction, but any errors may be corrected only by the making of new entries or payments in accordance with the Rules as the circumstances may require.

transfer Securities to the Ledger of another Participant through the Settlement Service. On behalf of the Participants, and on CDS's own behalf and on behalf of other Participants pursuant to the security interests granted by the Participants pursuant to Rule 5, with respect to each Security deposited in the Depository Service, CDS has control and possession of the Security, or as an entitlement holder has a security entitlement and the corresponding rights and property interest with respect to a financial asset credited to a securities account maintained for CDS by a Foreign Custodian. On request by a Participant, CDS shall deliver to the Participant the Securities held by CDS for the Participant as shown in the records of CDS for the Participant's Securities Accounts.

1.6.5 Settlements

Settlement is effected on a delivery versus payment basis. Trades are reported to CDS to be Settled by the delivery of Securities and the making of payment. A Trade may be Settled either (i) without pre-Settlement netting using the Trade-For-Trade method, or (ii) with pre-Settlement novation and netting using ~~one of the CNS or FINet Functions~~ [Function](#) to process Central Counterparty Obligations. Trades are subject to various edits, including the Aggregate Collateral Value Edit to monitor the amount of collateral available to support the Participant's obligations.

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 Accounts so as to make payment and deliver Securities between the Participants. Securities may be delivered by the book delivery of Securities held in the Depository Service. If a Trade is Settled using Certificate Based Settlement, the Securities are delivered by the physical delivery of a Security Certificate evidencing the Securities. Upon Settlement of a Trade, the obligations between the Participants to deliver Securities and to make payment are extinguished and replaced by obligations between CDS and the Participants to deliver the Securities shown in the Participants' Securities Accounts and to make payment as recorded in the Participants' Funds Accounts.

1.6.6 Payment Exchange

During Payment Exchange for each currency on each Business Day, by means of Acceptable Payments, CDS receives payment from and makes payment to Participants of obligations arising from their use of CDSX. The obligations owing between a Participant and CDS may be discharged on Payment Exchange by means of the Book Entry Payment Method or by an Acceptable Payment.

1.6.7 Credit Rings

All Participants (other than Bank of Canada) are Members of a Category Credit Ring, by which each Member guarantees the payment to CDS of certain obligations of the other Members of that Category Credit Ring. All Participants using certain Functions are Members of a Fund Credit Ring for that Function, by which each Member guarantees

agreement between such Participants. Where a Trade is submitted to CDS with a Third Party Clearing System Mode of Settlement, and where such Trade is rejected by the TPCS, CDS may, in accordance with the Procedures, and at any time prior to Settlement, modify the Mode of Settlement of a confirmed Trade between two Participants from its initial Mode of Settlement.

3.3.10 Termination of a Service or Function

CDS intends to offer the Services indefinitely but may suspend or terminate the operation of any Service or Function with the approval of the Board of Directors. CDS shall give notice to Participants of any proposal to suspend or terminate any Service or Function, at least 30 days before the effective date of the suspension or termination, provided that such notice may be abbreviated if the suspension or termination is for reasons outside the control of CDS.

5.7. CREDIT RINGS FOR FUNDS

5.7.1 Establishment of Funds

Each Participant who uses ~~any of the following Functions~~ [CNS Function](#) must become a Member of the Fund established for that Function:

- (a) ~~FINet~~
- (b) ~~CNS~~

Each Member of a Fund is part of the Fund Credit Ring. Each Member of a Fund Credit Ring guarantees payment to CDS of certain obligations of a suspended Member pursuant to this Rule 5.7. Each Member of a Fund makes Contributions to that Fund pursuant to Rule 5.8.

5.7.2 Payment by Fund Credit Ring

Each Member of a Fund is also a Member of the Credit Ring for that Fund. If CDS has been unable to collect from a Defaulter who is a Member or a former Member of a Fund for a Function an obligation to CDS arising from the Defaulter's use of such Function, then each other Member of that Fund shall pay to CDS its proportionate share of that obligation forthwith upon request by CDS. If any Member fails or refuses to pay its proportionate share of an obligation pursuant to this Rule 5.7 it will be considered to be a "subsequent Defaulter". Each other Fund Member who makes payment to CDS of its proportionate share of the obligation of a Defaulter and of each subsequent Defaulter will be considered to be a "Survivor". Each other Fund Member, upon request by CDS, shall pay to CDS its proportionate share of the obligation of such subsequent Defaulter, and so on with respect to all failures or refusals of other Members to pay their respective proportionate shares, until the full amount of the obligation owing by the Defaulter to CDS has been paid. References to a Defaulter or a Survivor shall be deemed to refer to a subsequent Defaulter or to a Fund Member that makes payment to CDS of its proportionate share of the obligation of a subsequent Defaulter, respectively, *mutatis mutandis*. The Credit Ring for a Fund has no obligation to CDS with respect to any obligation of a Participant arising from that Participant's use of another Function.

5.7.3 Defaulter's Obligation

The obligation referred to in Rule 5.7.2 of a Defaulter who is a Member of a Fund is the total of

- (a) Marks owed by the Defaulter arising from its use of the Function for which the Fund is established (including Marks calculated in respect of its Central Counterparty Obligations after the Defaulter is suspended); and
- (b) the net termination value of all of the Defaulter's Central Counterparty Obligations arising from its use of that Function.

The obligation of a Defaulter may be denominated in Canadian dollars or in US dollars or in both and the aggregate obligation in all currencies is the Debtor's obligation.

5.7.4 Calculation of Proportionate Share

Any request by CDS for payment pursuant to Rule 5.7.2 shall specify the effective time on the effective date to be used to calculate the Member's proportionate share of the obligation and shall provide details of that calculation. The effective date and time shall be the date and time of the suspension of the Defaulter or subsequent Defaulter, unless the Board of Directors determines that another date and time shall be used for such calculation. The Board of Directors, acting reasonably in the best interest of CDS and of Participants generally, may fix the effective time on the effective date for the calculation of proportionate shares. A Member's proportionate share of an obligation shall be in the same proportion to the obligations of all other Members that the Member's Fund Contribution to the Fund established for the Function in respect of which the obligation has arisen is of the total of all Fund Contributions required to be made to that Fund by all Members (other than the Defaulter); ~~except that the proportionate share of a Member of the FINet Fund shall be determined in accordance with a formula set out in the Procedures that is based on that Member's recent Transactions with the Defaulter that have been processed in FINet and deleted from the Settlement Service, as reflected in the archival records of such deleted Transactions.~~ In calculating a Member's proportionate share of the obligation of a subsequent Defaulter, the Fund Contributions to the Fund of the Defaulter and of each subsequent Defaulter shall be excluded from the calculation. If a Member's Fund Contribution is denominated separately in Canadian dollars and in US dollars, then for the purposes of this Rule 5.7.4, the calculation of the proportionate share shall be made using the aggregate Contributions, converting the US dollar Contributions to a Canadian equivalent using an exchange rate determined by CDS.

5.7.5 Continuing Obligation

The obligation of a Member of a Fund Credit Ring pursuant to this Rule 5.7 is a continuing obligation and is not discharged in whole or in part by, and each Member shall make payment as required by Rule 5.7.2 without regard to:

- (a) any payment made by the Defaulter or by another Member;
- (b) the suspension, termination or withdrawal of any Member of the Fund Credit Ring as a Participant; or
- (c) any defences, claims, counterclaims, statutory or contractual rights of set-off or rights of offset arising between the Defaulter and the Member or between CDS and the Defaulter or between CDS and the Member.

5.7.6 Actions by CDS

The liability of [a](#) Member of a Fund Credit Ring pursuant to this Rule 5.7 shall not be affected by any act or failure to act of CDS or of the Defaulter. Without limiting the generality of the foregoing:

- (a) The details of Trades between Participants that are to be Settled through the Service are reported to CDS.
- (b) If the Trade instructions specify a TPCS Mode of Settlement, the Trade is reported to the TPCS.
- (c) If the Trade instructions pass the pre-entry system edits, the Trade is entered into the system to be considered for Settlement.
- (d) A Trade may be Settled either (i) without pre-Settlement netting using the Trade-For-Trade method, or (ii) with pre-Settlement novation and netting using ~~one of~~ the CNS ~~or FInet-Functions~~ Function to process Central Counterparty Obligations.
- (e) The Settlement of each pending Trade using the Trade-for-Trade method is effected by means of payment and delivery of Securities between Participants. The Settlement of each outstanding Central Counterparty Obligation is effected by means of payment and delivery of Securities between Participants and CDS. Payment is made through the Settlement Service by book entry on the records of CDS. Securities are delivered either by the book delivery on the records of CDS of Securities held in the Depository Service or by the physical delivery of Security Certificates (if the Trade is to be Settled using the Certificate Based Settlement method).
- (f) If the Trade is reported with a TPCS Mode of Settlement, and the Third Party Clearing System has netted the Trade prior to the position's having been reported to CDS, the Trade representing the netted position will Settle on a Trade-for-Trade basis between the Participant and the Third Party Clearing System.
- (g) There are ~~four~~ three Settlement processes: the Real Time Continuous Net Settlement Process, the Real Time TFT Settlement Process the Combined Batch Net Settlement/Continuous Net Settlement Process ~~and the FInet Real Time Settlement Process~~.

7.1.2 Overview of Netting Prior to Settlement

A Trade may be Settled either (i) without pre-Settlement netting using the Trade-For-Trade method, or (ii) with pre-Settlement novation and netting using ~~one of~~ the CNS ~~or FInet-Functions~~ Function to create and revise Central Counterparty Obligations.

When a Trade is Settled without netting using the Trade-for-Trade method, the Participants who are parties to the Trade retain their identity as deliverer and receiver, and as payee and payor, with respect to that Trade until Settlement between those Participants is completed.

A Trade may be processed prior to Settlement through ~~one of the CNS or FINet Functions~~ Function, if ~~that the CNS~~ Function applies automatically to that class of Trades or if the following conditions are met: (i) both Participants to the Trade use ~~that the CNS~~ Function; (ii) the Security with respect to which the Trade is made is eligible for ~~that the CNS~~ Function; and (iii) both Participants specify the use of ~~that the CNS~~ Function for the Settlement of that Trade.

When a Trade is processed in the CNS ~~Function or FINet~~ Function prior to Settlement, each of the obligations of the Participants who are the parties to the Trade is first novated to obligations between each Participant and CDS and the resulting novated obligation with CDS is then netted with each Participant's like obligations with CDS to calculate the Central Counterparty Obligation to be Settled between that Participant and CDS. Under a Central Counterparty Obligation, (i) either CDS or the Participant has an obligation to deliver Securities and a right to receive payment for such delivered Securities, and (ii) the other party has the corresponding right to receive Securities and the corresponding obligation to make payment. ~~A Central Counterparty Obligation is a CNS Obligation or a FINet Obligation, depending on which Function was used to process the original Trades.~~

7.1.3 Ledgers and Accounts

For each Participant, CDS maintains one or more Ledgers. CDS also maintains one or more Ledgers for itself. Within each Ledger, there are a number of Accounts for funds and Securities. The Ledgers and Accounts are more fully described in Rule 6.1 and Rule 8.1.

7.1.4 Delivery of Securities and Making of Payment

When a Trade is settled on a delivery versus payment basis, the delivery of the Securities and the payment occur simultaneously. The Settlement of each pending Trade using the Trade-for-Trade method is effected by means of payment and delivery of Securities between Participants. The Settlement of each outstanding Central Counterparty Obligation is effected by means of payment and delivery of Securities between the Participant and CDS. References in these Rules to entries made on the Ledgers of Participants for the Settlement of a Central Counterparty Obligation include, unless the context otherwise requires, entries made on the Ledgers maintained by CDS for itself. Delivery of Securities is made to or from CDS from or to a Participant. Payment is made through the Settlement Service by book entry on the records of CDS. Securities are delivered either by the book delivery on the records of CDS of Securities held in the Depository Service, or by the physical delivery of a Security Certificate (if the Trade is to be Settled using the Certificate Based Settlement method). CDS makes entries to the Ledgers maintained by it for the parties to the Trade or Central Counterparty Obligation, to debit and credit the appropriate Accounts so as to make payment and, if the Settlement uses book delivery, to deliver Securities. Upon Settlement of a Trade, the obligations arising from the underlying Trade between the Participants (or, if the Settlement relates to a Central Counterparty Obligation, the obligations between CDS and the Participant evidenced by that Central Counterparty

(c) Trade-for-Trade Settlement of Trades reported by Third Party Clearing System

Trades reported from a TPCS to CDS shall Settle on a Trade-for-Trade basis in accordance with Rule ~~7.5.2~~,[7.4.2](#), with the TPCS as the counterparty to each Trade.

(d) Partial Delivery by Third Party Clearing System

When an outstanding TPCS Obligation is considered for TFT Settlement and the Settlement of the entire TPCS Obligation would not pass the pre-Settlement edit, but a partial Settlement of the TPCS Obligation would pass the pre-Settlement edits, then CDS may modify the original Trade in order to partially Settle that portion of the Trade which would otherwise be eligible for TFT Settlement but for the restriction of Rule ~~7.5.2~~[7.4.2](#)(d). Partial Settlement of a TPCS obligation results in the deletion of the original Trade and the creation of two new Trades, one for the amount of the available Securities or Funds, and one for the outstanding remainder. The former Trade will Settle by the delivery of only some of the Securities required and the making of a corresponding partial payment; the latter Trade will remain outstanding, to be reconsidered for Settlement. A pending Trade that constitutes the remainder of a partial Settlement may itself be partially Settled by the same process as defined herein.

7.3. FINET FUNCTION

7.3.1 Overview of FINet Function

~~FINet is a Function to net and novate fixed income eligible Trades. For eligible Trades, FINet calculates the FINet Obligations owing from time to time between a Participant and CDS by novating, on or prior to Value Date, the obligations between the Participants arising from an eligible Trade to obligations with CDS and by netting all of a Participant's like obligations with CDS. Each resulting FINet Obligation is a Central Counterparty Obligation that is eligible for Settlement on its Value Date through FINet realtime settlement or the Settlement Service.~~

7.3.2 Eligibility

~~Pursuant to Rule 2.2.8, the Board may impose such additional qualifications and standards for Participants eligible to use FINet as the Board considers necessary or desirable for the protection of CDS and of other Participants using FINet. CDS shall determine the Trades that are eligible for processing in FINet, based on any characteristic that CDS determines is relevant, including the class of Securities to be delivered in such Trade and the trade source.~~

~~A current or past or future value-dated Trade may be processed prior to Settlement through FINet, if FINet applies automatically to that class of Trades and if the Trade meets the eligibility criteria set out in the Procedures and the criteria set out in each Participant's service options.~~

~~7.3.3 Novation of Trades Prior to Settlement~~

~~When a Trade is processed in FINet, the Settlement obligations and rights between the Participants arising from the Trade (to deliver Securities and to receive payment, or to receive Securities and to make payment) are extinguished and replaced by corresponding Settlement obligations and rights between each Participant and CDS, with the result that all such obligations of each Participant are owed to CDS and all such rights of each Participant are against CDS. The novated obligations and rights between CDS and each Participant shall be due as of the Value Date of the Trade. To the extent, if any, that the novation of the Settlement obligations and rights affects any of the terms and conditions of the underlying Trade between the Participants that was to be Settled by the Trade, such terms and conditions shall be deemed to be amended, required to be performed and to have effect in a manner consistent with Settlement by FINet processing.~~

~~7.3.4 Netting of Novated Trades~~

~~Each time a Trade between Participants is processed in FINet, the novated obligations and rights between each Participant and CDS are netted with their like novated obligations and rights in order to calculate the single FINet Obligation with that Value Date, for that issue of Securities and in that currency then outstanding between that Participant and CDS. One FINet Obligation is a like obligation to another FINet Obligation if each is a FINet Obligation of that Participant to CDS, and of CDS to that Participant, with the same Value Date, denominated in the same currency, for the same issue of Securities, and resulting from other Trades of that Participant that has processed through FINet. A Participant's FINet Obligations are like obligations and may be netted even if under one FINet Obligation, CDS has the obligation to deliver Securities to the Participant and the right to receive payment from the Participant, while under the other FINet Obligation, CDS has the right to receive Securities from the Participant and the obligation to make payment to the Participant, and *vice versa*.~~

~~CDS maintains a record of the FINet Obligations of each Participant outstanding from time to time, to record by Value Date for each issue of Securities (i) the obligation of the Participant to deliver Securities to CDS and the right of the Participant to receive payment from CDS, or (ii) the obligation of the Participant to receive Securities from CDS and the right of the Participant to make payment to CDS.~~

~~7.3.5 FINet Process~~

~~The netting of the obligations and rights arising from a novated Trade occurs simultaneously with the novation of that Trade, to calculate a single FINet Obligation due on each Value Date for each issue of Securities denominated in the same currency.~~

~~and for the same client account (if applicable). Such novation and netting occur when entries are made in the records maintained by CDS, deleting the Trade between the Participants and recording new or recalculated FINet Obligations between each of the Participants and CDS. The entries for each Trade are processed concurrently on a committed basis, with the result that (i) either all of the entries are made to delete the Trade and record the FINet Obligations or none of the entries is made, and (ii) the deletion and the recording occur simultaneously. CDS shall provide Participants with information showing each of the Trades that has been deleted upon being processed in FINet, to assist Participants in reconciling their records. For greater certainty, the fact that CDS provides archival records of the deleted Trades shall not detract from the finality of the novation of any Trade once processed in FINet, and such records shall not constitute evidence of any obligation owing between the Participants to a deleted Trade.~~

7.3.6 Marks

(a) Daily Mark-to-Market Calculations

~~For each Business Day that a FINet Obligation is outstanding, CDS shall calculate at the times and in accordance with the Procedures a daily Mark in respect of that FINet Obligation. A daily Mark reflects the financing element of the FINet Obligation and the then-current market price of the Securities based on the daily price feeds that are to be received by CDS and may be calculated one or more times on a Business Day. A daily Mark is an amount that shall be paid on that Business Day (intraday mark) or the next Business Day (end-of-day mark) either to CDS by the Participant owing the FINet Obligation, or by CDS to that Participant. In addition, on that Business Day the payment component of the FINet Obligation is adjusted by the amount of the daily Mark.~~

(b) Fail Mark

~~In addition, to encourage the timely Settlement of FINet Obligations, CDS may impose a fail Mark in respect of any delayed or partial delivery of the Securities to be delivered pursuant to a FINet Obligation or in respect of any delayed or partial payment to be made pursuant to a FINet Obligation. CDS shall calculate in accordance with the Procedures the fail Mark, which will reflect the financing cost of the delayed or partial Settlement. If imposed, the fail Mark shall be paid to CDS by participants who failed to deliver Securities or to make payment to CDS, and shall be paid by CDS to participants to whom CDS failed to deliver Securities or to make payment. The payment component of the FINet Obligation is not adjusted by the amount of the fail Mark.~~

(c) Payment of Net Mark

~~CDS calculates a net amount owing to or by each Participant in respect of Marks for FINet by netting all FINet Marks to be paid or received by that Participant and the net FINet Mark is credited to or debited from the Funds Account of the~~

~~Participant. No amount shall be drawn under a Line of Credit or a System-Operating Cap in respect of a FINet Mark.~~

7.3.7 Settlement of FINet Obligations

~~Each FINet Obligation shall be Settled on its Value Date by a Trade between the Participant and CDS, effected by appropriate debits and credits to the Securities Account and Funds Account of CDS and of the Participant, subject to the same edits and restrictions as any other Trade of that Participant.~~

7.3.8 Partial Settlement and Delayed Settlement

(a) Effect of Partial or Delayed Settlement

~~CDS may delay the receipt of, or take partial receipt of, Securities that it is due to receive under the securities component of a FINet Obligation if it is unable to re-deliver all such Securities under the securities component of another of its FINet Obligations with another Participant, and may delay the delivery of, or make partial delivery of, Securities that it is due to deliver under the securities component of a FINet Obligation if it has not received the delivery of all such Securities under the securities component of another of its FINet Obligations with another Participant. When a partial delivery of Securities is made by a Participant or by CDS in Settlement of the securities component of its FINet Obligation, the payment component of that FINet Obligation shall be adjusted accordingly; when a partial payment is made by a Participant or by CDS in Settlement of the payment component of its FINet Obligation, the securities component of that FINet Obligation shall be adjusted accordingly. If a FINet Obligation of a Participant or of CDS is not Settled in full on its Value Date because any or all of the Securities due to be delivered in respect of the FINet Obligation are not delivered or because any or all of the payments due to be made in respect of the FINet Obligation are not made, then the Value Date of the outstanding FINet Obligation will be changed to the next Business Day, and will be netted with the like FINet Obligations of CDS and of that Participant for the new Value Date (if they exist). The revision and recalculation of the FINet Obligation will continue until it is Settled in full. To encourage the timely Settlement of FINet Obligations, CDS may impose a fee in respect of any delayed or partial delivery or receipt of the Securities pursuant to a FINet Obligation or in respect of any delayed or partial payment to be made pursuant to a FINet Obligation.~~

(b) Buy-In Procedure

~~If CDS has not delivered all of the Securities owing to a Participant under a FINet Obligation, then that Participant may request CDS to Settle the then-outstanding FINet Obligation on its original Value Date. If CDS receives such a request to Settle a partial or delayed delivery, CDS may require any Participant who has a FINet Obligation to deliver Securities of that issue to CDS to make such delivery. Upon such request by CDS, that Participant shall be required to Settle in full the~~

~~forced-on FINet Obligation by the time prescribed and shall not be permitted to make a partial delivery or to delay delivery. If the Participant fails to Settle a forced-on FINet Obligation in full, then CDS may at any time execute a buy-in of the Participant's delayed or partial delivery. When CDS executes a buy-in, the forced-on FINet Obligation shall be terminated. CDS may appoint an agent to purchase the Securities required for the buy-in, and the purchase shall be made on such terms as CDS deems commercially reasonable taking into consideration the need of CDS to receive prompt delivery of such Securities. If CDS makes such a purchase, the purchase price of such Securities, and all costs and expenses incurred by CDS in connection with the purchase, shall be an amount immediately due and owing to CDS by the Participant who failed to Settle the forced-on FINet Obligation.~~

7.3.9 Default after Settlement

~~Once a FINet Obligation has been Settled, the FINet Obligation shall no longer be distinguished from any other Trades Settled for the Participant. If the Participant is suspended after Settlement of the FINet Obligation, CDS shall take steps with respect to that suspension without regard for the fact that the obligation in respect of which the Participant has defaulted included debits or credits arising from the Settlement of the FINet Obligation. Without limiting the generality of the foregoing, CDS may take the steps set out in Rule 9.2 to collect payment from any Surety and from the other Members of any Credit Ring of which the Defaulter is a Member, and the steps set out in Rule 9 generally.~~

7.3.10 Close-Out Process

(a) Actions by CDS

~~Upon the termination or suspension of a FINet Participant, CDS shall:~~

- ~~(i) Settle FINet Obligations due on that Value Date with each Participant other than the Defaulter, but such Settlement may be delayed until after completion of the close-out process for the Defaulter in accordance with this Rule;~~
- ~~(ii) terminate all outstanding FINet Obligations of that Defaulter (including FINet Obligations that were due to Settle on the date of suspension and FINet Obligations with future Value Dates);~~
- ~~(iii) determine the close-out amount for each terminated FINet Obligation;~~
- ~~(iv) determine the net termination value for all of FINet Obligations of that Defaulter, by netting or setting off all close-out amounts that are losses to CDS against all close-out amounts that are gains to CDS; and~~
- ~~(v) take any steps under Rule 9.~~

~~CDS may decide not to take all or any such steps in respect of a suspended Participant, in which event the notice of suspension will indicate which steps are to be taken.~~

~~(b) Calculation of Close-Out Amounts~~

~~The close-out amount for each FINet Obligation shall be the amount determined by CDS in good faith to be its total loss or gain arising from the failure of that FINet Obligation, including any cost of funding. CDS may enter into a Trade that has the effect of replacing for CDS (to the extent feasible) the economic equivalent of the Defaulter's obligation pursuant to that FINet Obligation to deliver Securities for the corresponding payment or to receive Securities on making the corresponding payment. CDS may in its discretion determine that the replacement Trade shall be a buy/sell, a purchase/repurchase, a repo, a securities loan, or a Trade otherwise structured. If the replacement Trade is to be Settled by a Trade, that Trade may itself be processed in FINet. The cost or gain to CDS of such replacement Trade, including the Marks paid or received on FINet Obligation resulting from the processing of the replacement Trade through FINet, shall be used to calculate the close-out amount of that replaced FINet Obligation. If CDS determines that it is not feasible to enter into a replacement trade, the loss or gain constituting the close-out amount may be determined by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant market.~~

~~(c) Calculation of the Net Termination Value~~

~~CDS shall calculate the net termination value for all of the Defaulter's FINet Obligations terminated upon the suspension of the Participant, which shall be the net of all losses or gains arising from the close-out amount of all FINet Obligations. The net termination value shall be an amount that is immediately due and payable by the Defaulter to CDS.~~

~~(d) Release of Liability~~

~~Each FINet Participant releases and discharges CDS from any liability or claim arising from the exercise of the powers granted pursuant to this Rule 7.3, other than liabilities or claims arising from gross negligence or wilful default.~~

7.3.11 Withdrawal from FINet

~~A Participant may withdraw from FINet by giving notice to CDS of its intention to withdraw. CDS shall inform all of the other Participants making use of FINet that it has received a notice of intention to withdraw from that Participant, and shall give particulars of the withdrawal. The notice shall be effective as of the end of the tenth Business Day following the later of (i) the Business Day on which the Participant gives such notice or (ii) the Business Day on which the Participant, having given such notice, has no outstanding FINet Obligations and has paid the net amount owing by it in respect of FINet Marks. A Participant who has withdrawn from FINet has no obligations pursuant to Rule 5.8 with respect to the obligation of a Defaulter who is suspended after the time at which the Participant's notice of intention to withdraw is effective. Unless the Participant has exercised the CCP Withdrawal Option pursuant to Rule 9.4, a Participant who has given a notice of intention to withdraw continues to be subject to all of its obligations pursuant to Rule 5.8 with respect to the obligation of a Defaulter who is suspended before the time at which the Participant's notice of intention to withdraw is effective.~~

7.3.12 Transition Provision

~~Pursuant to Rule 3.3.10, CDS shall give notice to DetNet Participants that the DetNet Function will be terminated at least 30 days prior to the effective date of the termination of the DetNet Function on [Monday, April 6, 2009].~~

~~Pursuant to Rules 2.2.1, 2.2.2, 2.2.7 and 2.2.8, all eligible DetNet Participants shall be deemed to be eligible for and have applied and been approved to use the FINet Function, and are deemed to be FINet Participants upon the commencement of the FINet Function. At any time after the commencement of the FINet Function, a FINet Participant may withdraw from participation in the FINet Function pursuant to Rule 7.3.11. However, if the withdrawing FINet Participant has outstanding netted Trades and/or original netted Trades that have not yet reached their Value Dates when the DetNet Function is terminated, the FINet Participant shall not withdraw from participation in the FINet Function pursuant to Rule 7.3.11 until 10 Business Days after the FINet Participant no longer has outstanding netted Trades and has paid the net amount owing in respect to their mark-to-the-market obligations related to the original netted Trades.~~

7.3. ~~7.4.~~ CONTINUOUS NET SETTLEMENT FUNCTION

7.3.1 ~~7.4.1~~ Overview of CNS Function

The Continuous Net Settlement Function or CNS is a Function to net eligible Trades. CNS calculates CNS Obligations owing from time to time between a Participant and CDS by novating, on Value Date, the obligations between the Participants arising from an eligible Trade to obligations with CDS and by netting all of a Participant's like obligations with CDS. Each resulting CNS Obligation is a Central Counterparty Obligation that is Settled on its Value Date through the Settlement Service.

7.3.2 7.4.2 Eligibility

Pursuant to Rule 2.2.8, the Board may impose such additional qualifications and standards for Participants eligible to use CNS as the Board considers necessary or desirable for the protection of CDS and of other Participants using CNS. CDS shall determine the Trades that are eligible for processing in CNS, based on any characteristic that CDS determines is relevant, including the class of Securities to be delivered in such Trade and the Value Date of the Trade.

A Trade may be processed prior to Settlement through CNS, if CNS applies automatically to that class of Trades or if all of the following conditions are met: (i) both Participants who are parties to the Trade use CNS; (ii) the Security with respect to which the Trade is made is eligible for CNS; and (iii) the use of CNS for the Settlement of that Trade is specified (1) by both Participants who are parties to the Trade, (2) by the Exchange, trading system, service bureau or other third party service provider that reported the Trade on behalf of the Participants, or (3) in the case of Trades processed through the CDSX trade matching function, by either or both of the Participants who are parties to the Trade.

7.3.3 7.4.3 Novation of Trades Prior to Settlement

When a Trade is processed in CNS, the Settlement obligations and rights between the Participants arising from the Trade (to deliver Securities and to receive payment, or to receive Securities and to make payment) are extinguished and replaced by corresponding Settlement obligations and rights between each Participant and CDS, with the result that all such obligations of each Participant are owed to CDS and all such rights of each Participant are against CDS. The novated obligations and rights between CDS and each Participant shall be due as of the Value Date of the Trade. To the extent, if any, that the novation of the Settlement obligations and rights affects any of the terms and conditions of the underlying Trade between the Participants that was to be Settled by the Trade, such terms and conditions shall be deemed to be amended, required to be performed and to have effect in a manner consistent with Settlement by CNS processing (unless the Participants expressly agree otherwise).

7.3.4 7.4.4 Netting of Novated Trades

Each time a Trade between Participants is processed in CNS, the novated obligations and rights between each Participant and CDS are netted with their like novated obligations and rights in order to calculate the single CNS Obligation with that Value Date, for that issue of Securities and in that currency then-outstanding between that Participant and CDS. One CNS Obligation is a like obligation to another CNS Obligation if each is a CNS Obligation of that Participant to CDS, and of CDS to that Participant, with the same Value Date, denominated in the same currency, for the same issue of Securities, and resulting from other Trades of that Participant previously processed through CNS. A Participant's CNS Obligations are like obligations and may be netted even if under one CNS Obligation, CDS has the obligation to deliver Securities to the Participant and the right to receive payment from the Participant, while under the other

CNS Obligation, CDS has the right to receive Securities from the Participant and the obligation to make payment to the Participant, and *vice versa*. CDS maintains a record of the CNS Obligations of each Participant outstanding from time to time, to record by Value Date for each issue of Securities (i) the obligation of the Participant to deliver Securities to CDS and the right of the Participant to receive payment from CDS, or (ii) the obligation of the Participant to receive Securities from CDS and the right of the Participant to make payment to CDS.

7.3.5 ~~7.4.5~~ CNS Process

The netting of the obligations and rights arising from a novated Trade occurs simultaneously with the novation of that Trade, to calculate a single CNS Obligation due on each Value Date for each issue of Securities and denominated in the same currency. Such novation and netting occur when entries are made in the records maintained by CDS, deleting the Trade between the Participants and recording new or recalculated CNS Obligations between each of the Participants and CDS. The entries for each Trade are processed concurrently on a committed basis, with the result that (i) either all of the entries are made to delete the Trade and record CNS Obligations or none of the entries is made, and (ii) the deletion and the recording occur simultaneously. CDS shall provide Participants with information showing each of the Trades that has been deleted upon being processed in CNS, to assist Participants in reconciling their records. For greater certainty, the fact that CDS provides archival records of the deleted Trades shall not detract from the finality of the novation of any Trade once processed in CNS, and such records shall not constitute evidence of any obligation owing between the Participants to a deleted Trade.

7.3.6 ~~7.4.6~~ Marks

(a) Daily Mark

For each Business Day that a CNS Obligation is outstanding, CDS shall calculate in accordance with the Procedures the daily Mark in respect of that CNS Obligation. The daily Mark reflects the then-current market price of the Securities that are to be delivered or received on Value Date by the Participant in respect of that CNS Obligation. The daily Mark is an amount that shall be paid on that Business Day either to CDS by the Participant owing the CNS Obligation, or by CDS to that Participant. In addition, on that Business Day the payment component of the CNS Obligation is adjusted by the amount of the daily Mark.

(b) Fail Mark

In addition, to encourage the timely Settlement of CNS Obligations, CDS may impose a fail Mark in respect of any delayed or partial delivery of the Securities to be delivered pursuant to a CNS Obligation or in respect of any delayed or partial payment to be made pursuant to a CNS Obligation. CDS shall calculate in accordance with the Procedures the fail Mark, which will reflect the financing cost of the delayed or partial Settlement. If imposed, the fail Mark shall be paid to

CDS by participants who failed to deliver Securities to CDS or to make payment to CDS, and shall be paid by CDS to participants to whom CDS failed to deliver Securities or to make payment. The payment component of the CNS Obligation is not adjusted by the amount of the fail Mark.

(c) Payment of Net Mark

CDS calculates a net amount owing to or by each Participant in respect of Marks for CNS by netting all CNS Marks to be paid or received by that Participant and the net CNS Mark is credited to or debited from the Funds Account of the Participant. No amount shall be drawn under a Line of Credit or a System-Operating Cap in respect of a CNS Mark.

7.3.7 ~~7.4.7~~ Settlement of CNS Obligations

Each CNS Obligation shall be Settled on its Value Date by a Trade between the Participant and CDS, effected by appropriate debits and credits to the Securities Account and Funds Account of CDS and of the Participant, subject to the same edits and restrictions as any other Trade of that Participant.

7.3.8 ~~7.4.8~~ Partial Settlement and Delayed Settlement

(a) Effect of Partial or Delayed Settlement

CDS may delay the receipt of, or take partial receipt of, Securities that it is due to receive under the securities component of a CNS Obligation if it is unable to re-deliver all such Securities under the securities component of another of its CNS Obligations with another participant, and may delay the delivery of, or make partial delivery of, Securities that is due to deliver under the securities component of a CNS Obligation if it has not received the delivery of all such Securities under the securities component of another of its CNS Obligations with another participant. When a partial delivery of Securities is made by a participant or by CDS in Settlement of the securities component of its CNS Obligation, the payment component of that CNS Obligation shall be adjusted accordingly; when a partial payment is made by a participant or by CDS in Settlement of the payment component of its CNS Obligation, the securities component of that CNS Obligation shall be adjusted accordingly. If a CNS Obligation of a participant or of CDS is not Settled in full on its Value Date because any or all of the Securities due to be delivered in respect of the CNS Obligation are not delivered or because any or all of the payments due to be made in respect of the CNS Obligation are not made, then the Value Date of the outstanding CNS Obligation will be changed to the next Business Day, and will be netted with the like CNS Obligations of CDS and of that participant for the new Value Date. The revision and recalculation of the CNS Obligation will continue until it is Settled in full. To encourage the timely Settlement of CNS Obligations, CDS may impose a fee in respect of any delayed or partial delivery of the Securities to be delivered

pursuant to a CNS Obligation or in respect of any delayed or partial payment to be made pursuant to a CNS Obligation.

(b) Buy-In Procedure

If CDS has not delivered all of the Securities owing to a Participant under a CNS Obligation, then that Participant may request CDS to Settle the then-outstanding CNS Obligation on its then-current Value Date. If CDS receives such a request to Settle a partial or delayed delivery, CDS may require any Participant who has a CNS Obligation to deliver Securities of that issue to CDS on that Value Date to make such delivery. Upon such request by CDS, that Participant shall be required to Settle in full the forced-on CNS Obligation by the time prescribed and shall not be permitted to make a partial delivery or to delay delivery. If the Participant fails to Settle a forced-on CNS Obligation in full, then CDS may at any time execute a buy-in of the Participant's delayed or partial delivery. When CDS executes a buy-in, the forced-on CNS Obligation shall be terminated. CDS may appoint an agent to purchase the Securities required for the buy-in, and the purchase shall be made on such terms as CDS deems commercially reasonable taking into consideration the need of CDS to receive prompt delivery of such Securities. If CDS makes such a purchase, the purchase price of such Securities, and all costs and expenses incurred by CDS in connection with the purchase, shall be an amount immediately due and owing to CDS by the Participant who failed to Settle the forced-on CNS Obligation.

7.3.9 7.4.9 Re-Novation of CNS Obligation before Settlement

CDS may take the steps set out in this Rule ~~7.4.9~~7.3.9 with respect to an outstanding CNS Obligation that has not yet been Settled (i) if the Security to be delivered becomes permanently ineligible for CNS, or (ii) if the Security to be delivered becomes temporarily ineligible for CNS in order to facilitate the processing of a re-organization in respect of that Security or in order to facilitate the processing of an entitlement by DTC or NSCC in respect of that Security. In such event, CDS may novate the outstanding CNS Obligation to a Trade between Participants. As a result, the outstanding CNS Obligation shall be deleted from CNS and the rights and obligations between CDS and the Participant under the deleted CNS Obligation shall be extinguished. To replace the deleted CNS Obligation, CDS shall create one or more Trades with a Trade-for-Trade mode of settlement indicator between CNS Participants who had, before the deletion, corresponding CNS Obligations. The Participants who are parties to the newly created Trade that replaces the deleted CNS Obligation may not have previously been parties to any Trade in the affected Security with one another. Upon the deletion of an outstanding CNS Obligation, any obligation to deliver Securities and any right to receive Securities, and any obligation to make payment and any right to receive payment, between CDS and the Participant arising from the deleted CNS Obligation, are extinguished and replaced by the rights and obligations of the Participants to deliver Securities and make payment arising from the newly created Trade, and CDS shall have no further obligation or right with respect to the deleted CNS Obligation.

7.3.10 ~~7.4.10~~ Conversion of CNS Trade Before Processing

CDS may take the steps set out in this Rule ~~7.4.10~~7.3.10 with respect to a Trade with a CNS mode of settlement indicator that has not yet been processed through CNS Function if the Security to be delivered becomes ineligible for CNS either permanently, or temporarily to facilitate the processing of an entitlement or re-organization in respect of that Security. In such event, CDS may change the mode of settlement indicator on the Trade to a Trade-for-Trade mode of settlement. As a result, the outstanding Trade shall be converted into a Trade with a Trade-for-Trade mode of settlement indicator to be Settled between the Participants who were the parties to the original Trade. When the Security later becomes eligible for CNS, a Trade-for-Trade mode of settlement indicator on any outstanding Trade in that Security (including a newly created Trade under Rule ~~7.4.9~~7.3.9) may be changed to a CNS mode of settlement indicator, if the Trade is eligible for processing through the CNS Function.

7.3.11 ~~7.4.11~~ Default after Settlement

Once a CNS Obligation has been Settled, the CNS Obligation shall no longer be distinguished from any other Trades Settled for the Participant. If the Participant is suspended after Settlement of CNS Obligation, CDS shall take steps with respect to that suspension without regard for the fact that the obligation in respect of which the Participant has defaulted included debits or credits arising from the Settlement of the CNS Obligation. Without limiting the generality of the foregoing, CDS may take the steps set out in Rule 9.2 to collect payment from any Surety and from the other Members of any Credit Ring of which the Defaulter is a Member, and the steps set out in Rule 9 generally.

7.3.12 ~~7.4.12~~ Close-Out Process

(a) Actions by CDS

Upon the termination or suspension of a CNS Participant, CDS shall:

- (i) Settle CNS Obligations due on that Value Date with each Participant other than the Defaulter, but such Settlement may be delayed until after completion of the close-out process for the Defaulter in accordance with this Rule;
- (ii) terminate all outstanding CNS Obligations of that Defaulter;
- (iii) determine the close-out amount for each terminated CNS Obligation;
- (iv) determine the net termination value for all of CNS Obligations of that Defaulter, by netting or setting off all close-out amounts that are losses to CDS against all close-out amounts that are gains to CDS; and
- (v) take any steps under Rule 9.

CDS may decide not to take all or any such steps in respect of a suspended Participant, in which event the notice of suspension will indicate which steps are to be taken.

(b) Calculation of Close-Out Amounts

The close-out amount for each CNS Obligation shall be the amount determined by CDS in good faith to be its total loss or gain arising from the failure of that CNS Obligation, including any cost of funding. CDS may enter into a Trade that has the effect of replacing for CDS (to the extent feasible) the economic equivalent of the Defaulter's obligation pursuant to that CNS Obligation to deliver Securities for the corresponding payment or to receive Securities on making the corresponding payment. CDS may in its discretion determine that the replacement Trade shall be a buy/sell, a purchase/repurchase, a repo, a securities loan, or a Trade otherwise structured. If the replacement Trade is to be Settled by a Trade, that Trade may itself be processed in CNS. The cost or gain to CDS of such replacement Trade, including the Marks paid or received on the CNS Obligation resulting from the processing of the replacement Trade through CNS, shall be used to calculate the close-out amount of that replaced CNS Obligation. If CDS determines that it is not feasible to enter into a replacement trade, the loss or gain constituting the close-out amount may be determined by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant market.

(c) Calculation of the Net Termination Value

CDS shall calculate the net termination value for all of the Defaulter's CNS Obligations terminated upon the suspension of the Participant, which shall be the net of all losses or gains arising from the close-out amount of all CNS Obligations. The net termination value shall be an amount that is immediately due and payable by the Defaulter to CDS.

(d) Release of Liability

Each CNS Participant releases and discharges CDS from any liability or claim arising from the exercise of the powers granted pursuant to this Rule ~~7.4~~7.3, other than liabilities or claims arising from gross negligence or wilful default.

7.3.13 ~~7.4.13~~ Withdrawal from CNS

A Participant may withdraw from CNS by giving notice to CDS of its intention to withdraw. CDS shall inform all of the other Participants making use of CNS that it has received a notice of intention to withdraw from that Participant, and shall give particulars of the withdrawal. The notice shall be effective as of the end of the tenth Business Day following the later of (i) the Business Day on which the Participant gives such notice or (ii) the Business Day on which the Participant, having given such notice, has no outstanding CNS Obligations and has paid the net amount owing by it in respect of CNS

7.4. ~~7.5.~~ PROCESSING OF SETTLEMENTS

7.4.1 ~~7.5.1~~ Settlement Processes

A pending Trade or outstanding Central Counterparty Obligation is considered for Settlement on its Value Date. There are ~~four~~three Settlement processes: the Real Time TFT Settlement Process (the Real Time TFT Process), the Real Time Continuous Net Settlement Process, and the Combined Batch Net Settlement/Continuous Net Settlement Process (the Combined Batch/CNS Process) ~~and the FINet Real Time Settlement Process.~~

7.4.2 ~~7.5.2~~ Real Time TFT Process

The Real Time TFT Settlement Process:

- (a) is run throughout the time the system is operating;
- (b) processes Settlement of pending Trades that have a Trade-for-Trade mode of settlement indicator (including Pledges.);
- (c) does not novate or net newly reported Trades to create new Central Counterparty Obligations; and
- (d) Settles a Trade only if the entire Trade can be Settled except when such Trade is reported by a Third Party Clearing System as described in Rule 7.2.7

If a Trade does not pass the pre-settlement edits in its entirety, it is not partially Settled and remains a pending Trade that will be reconsidered for Settlement.

When the Real Time TFT Process effects the Settlement of a Trade, amounts are used under the System-Operating Cap and Lines of Credit (if required) at the same time that Securities are delivered pursuant to Rule ~~7.6.2~~7.5.2 or Rule ~~7.6.4~~7.5.4 and payment is made pursuant to Rule ~~7.6.5~~7.5.5. All of the entries required for each Settlement are processed on a committed basis, with the result that either all of the entries (including all entries to Funds Accounts and Securities Accounts and all entries using amounts under System-Operating Caps and Lines of Credit in respect of negative Funds Account balances) required to complete that Settlement are made, or, if for any reason any of the entries cannot be made, then none of the entries are made and the Trade is not Settled.

7.4.3 ~~7.5.3~~ Real Time Continuous Net Settlement Process

The Real Time Continuous Net Settlement Process:

- (a) is run continuously each day as a discrete process in accordance with the Procedures;
- (b) processes Settlement of outstanding Central Counterparty Obligations for CNS .;
- (c) does not usually novate or net newly reported Trades to create new Central Counterparty Obligations, but may be used by CDS in its discretion to novate and net newly reported Trades that have a CNS mode of settlement indicator in order to calculate new Central Counterparty Obligations, in which event it will also calculate and process the related Marks;
- (d) Settles an outstanding Central Counterparty Obligation either in its entirety or partially;
- (e) applies the pre-settlement system edits described in Rule 5.13 to the Securities and Funds Account balances resulting from the Settlement of each individual outstanding Central Counterparty Obligation.

When the Settlement of a Central Counterparty Obligation is effected by the Real Time Continuous Net Settlement Process, amounts are used under the System-Operating Cap and Lines of Credit at the same time that Securities are delivered pursuant to Rule [7.6.27.5.2](#) or Rule [7.6.47.5.4](#) and payment is made pursuant to Rule [7.6.57.5.5](#). All of the entries required for each Settlement processed are processed on a committed basis, with the result that either all of the entries (including all entries to Funds Accounts and Securities Accounts and all entries using amounts under System-Operating Caps and Lines of Credit in respect of negative Funds Account balances) required to complete that Settlement are made, or, if for any reason any of the entries cannot be made, then none of the entries are made and the Central Counterparty Obligation is not Settled.

[7.4.4](#) [7.5.4](#) Combined Batch/CNS Process

The Combined Batch Net Settlement/Continuous Net Settlement Process:

- (a) is run once each day as a discrete process before the Real Time TFT Process or the Real Time Continuous Net Settlement Process is run, and may be run at additional times if CDS considers such action desirable to optimize Service functionality;
- (b) processes Settlement of any pending Trade (other than a Pledge) or outstanding Central Counterparty Obligation;
- (c) novates and nets newly reported Trades that have a CNS mode of settlement indicator, to calculate new Central Counterparty Obligations;
- (d) calculates and processes Marks for Central Counterparty Obligations;

- (e) Settles an outstanding Central Counterparty Obligation either in its entirety or partially;
- (f) Settles a Trade only if the entire Trade can be Settled;
- (g) applies the pre-settlement system edits described in Rule 5.13 to the projected final net Securities and Funds Account balances resulting from the Settlement of all Trades and Central Counterparty Obligation in the batch, and not to the balances resulting from the Settlement of each individual Trade or Central Counterparty Obligation.

The Combined Batch/CNS Process Settles a pending Trade or outstanding Central Counterparty Obligations only if all of the resulting Account balances pass the pre-settlement edits. If not, the pending Trade is removed from the batch (and not considered for partial Settlement), and the outstanding Central Counterparty Obligation is considered for partial Settlement in accordance with Rule [7.5.7](#), [7.4.6](#), until those remaining can be Settled within the limitations set by the pre-settlement edits. Trades removed from the batch remain pending Trades to be reconsidered for Settlement. After such removals, the Trades and Central Counterparty Obligations then remaining are Settled in a batch.

The entries for each batch are processed on a committed basis, with the result that either all of the entries (including all entries to Funds Accounts and Securities Accounts and all entries using amounts under System-Operating Caps and Lines of Credit in respect of negative Funds Account balances) required to complete those Settlements are made, so that all the Trades and Central Counterparty Obligations remaining in the batch are Settled, or, if for any reason the batch cannot be completed, none of the entries are made and no Trade or Central Counterparty Obligation is Settled by that batch. All entries required to effect all of the Settlements in a particular batch are made concurrently, with the result that all the Trades and Central Counterparty Obligations remaining in the batch are Settled simultaneously.

[7.4.5](#) ~~7.5.5~~ Account Entries Resulting from Batch Process

- (a) Funds Account Entries

For each Trade Settled by the Combined Batch/CNS Process that includes payment, an entry is made debiting the Funds Accounts maintained for the payor Participant and an entry is made crediting the Funds Accounts maintained for the payee Participant. For each Central Counterparty Obligation Settled by the Combined Batch/CNS Process that includes payment, an entry is made debiting the Funds Accounts maintained for the payor Participant (or CDS) and an entry is made crediting the Funds Accounts maintained for the payee Participant (or CDS). Since all of the debit and credit entries required to effect all of the Settlements in a particular batch are made simultaneously, no interim Funds Account balance can be calculated for each entry and only the Funds Account balance resulting from the Settlement of all such Trades and Central

Counterparty Obligations records funds owing between CDS and the Participant in accordance with Rule 8.1.1. Accordingly, only the resulting Funds Account balance (if negative) is used under the System-Operating Cap allocated to that Funds Account and the Lines of Credit established for that Ledger. Therefore, no individual entry debiting a Funds Account made in the batch is a forced entry as described in Rule 8.1.3, and the Settlements effected in the batch are made in compliance with Rule 2.4 and Rule 5.10.1.

(b) Securities Entries in Accounts

For each Trade Settled by the Combined Batch/CNS Process that includes the delivery of Securities, an entry is made debiting the Securities balance in an Account maintained for the delivering Participant and an entry is made crediting the Securities balance in an Account maintained for the receiving Participant. For each Central Counterparty Obligation Settled by the Combined Batch/CNS Process that includes the delivery of Securities, an entry is made debiting the Securities balance in an Account maintained for the delivering Participant (or CDS) and an entry is made crediting the Securities balance in an Account maintained for the receiving Participant (or CDS). For each class of Security in which Trade or Central Counterparty Obligations are Settled by batch processing, a single net Securities balance is calculated for each Account affected by the processing. Since all of the debit and credit entries required to effect all of the Settlements in a particular batch are made simultaneously, no interim Account balance is calculated for each entry and only the Account balances resulting from the Settlement of all such Trades and Central Counterparty Obligations record Securities held by CDS for the Participant in accordance with Rule 4.2.4.

(c) Completion of Trades

The debit and credit entries made in the batch to each Account to complete a Trade constitute the Settlement of that Trade by the delivery of Securities between the delivering Participant and the receiving Participant pursuant to Rule ~~7.6.2~~[7.5.2](#) or Rule ~~7.6.4~~[7.5.4](#) and the making of payment between the payee Participant and the payor Participant pursuant to Rule ~~7.6.5~~[7.5.5](#). The debit and credit entries made in the batch to each Account to complete a Central Counterparty Obligation constitute the Settlement of that Central Counterparty Obligation by the delivery of Securities between CDS and the delivering or receiving Participant (as the case may be) pursuant to Rule ~~7.6.2~~[7.5.2](#) and the making of payment between CDS and the payee or payor Participant (as the case may be) pursuant to Rule ~~7.6.5~~[7.5.5](#).

~~7.5.6 FINet Real Time Settlement Process~~

~~The FINet Real Time Settlement Process:~~

- ~~(a) is run from system start-up Payment Exchange in Canadian dollars and during the overnight on-line period;~~
- ~~(b) processes Settlement of FINet Trades that have reached Value Date and are not on hold;~~
- ~~(c) Settles an outstanding FINet Trade either in its entirety or partially; and~~
- ~~(d) applies the pre-settlement system edits described in Rule 5.13 to the Securities and Funds Account balances resulting from the Settlement of each Trade and FINet Obligation individually.~~

7.4.6 7.5.7 Processing of Settlement of Central Counterparty Obligations

When (i) an outstanding Central Counterparty Obligation is considered for Settlement in any Settlement process, (ii) the Settlement of the entire Central Counterparty Obligation would not pass the pre-settlement edit, but (iii) a partial Settlement of the Central Counterparty Obligation would pass the pre-settlement edits, then the Central Counterparty Obligation may be partially Settled, by the delivery of only some of the Securities required and the making of a corresponding partial payment. As a result of such a partial Settlement of the Central Counterparty Obligation, a revised Central Counterparty Obligation will remain outstanding, to be reconsidered for Settlement.

7.5. ~~7.6.~~ SETTLEMENT

7.5.1 ~~7.6.1~~ Settlement Process

As a result of the processing described in Rule ~~7.5,~~7.4, any or all of the following may occur:

- (a) pending Trades are Settled by the delivery of Securities and payment between Participants as described in this Rule ~~7.6~~7.5;
- (b) outstanding Central Counterparty Obligations are Settled by the delivery of securities and payment between CDS and a Participant as described in this Rule ~~7.6~~7.5;
- (c) Securities Account balances and Funds Account balances are revised by the debits and credits made in respect of such Settlements;
- (d) amounts are used under Lines of Credit and System-Operating Caps;
- (e) amounts used under Lines of Credit and System-Operating Caps are repaid;
- (f) Trades that are not Settled remain pending to be reconsidered for Settlement; and
- (g) Central Counterparty Obligations that are not Settled, or are partially Settled, remain outstanding to be reconsidered for Settlement.

All such entries are made simultaneously.

7.5.2 ~~7.6.2~~ Book Delivery of Securities

A transfer of a Security by book delivery is effected by the making of appropriate entries in the Ledgers maintained by CDS debiting and crediting the Accounts of the delivering Participant and the receiving Participant respectively in the quantity of the Security relating to that Trade (or debiting and crediting the Accounts of CDS and the Participant, relating to that Central Counterparty Obligation). The making of such entries effects final and irrevocable delivery of the Security between the Participants with respect to that Trade (or between CDS and the Participant, with respect to that Central Counterparty Obligation).

7.5.3 ~~7.6.3~~ Attornment

The making of an entry by CDS in the Ledgers maintained by CDS to effect the delivery of a Security constitutes the attornment of CDS that the Security so delivered is held for the receiving Participant, and such Security is thereby constructively delivered to the receiving Participant. The making of an entry by CDS in a Securities Account maintained by CDS for a Participant to record a quantity of a Security constitutes the

attornment of CDS that the quantity of that Security so recorded is held for the Participant.

7.5.4 ~~7.6.4~~ Pledge

A Pledge of a Security is effected by the making of appropriate entries in the Ledgers maintained by CDS debiting the Securities Account of the pledgor Participant and crediting the Collateral Account of the pledgee Participant in the quantity of the Securities relating to that Pledge. The Securities credit balance in the Collateral Account of a Participant records the quantity of each Security held by CDS for that Participant. A Pledge of funds is effected by the making of appropriate entries in the Ledgers maintained by CDS debiting the Funds Account of the pledgor Participant and crediting the Collateral Account of the pledgee Participant in the amount of funds relating to that Trade. The funds credit balance in the Collateral Account of a Participant, which records an amount owing by CDS to that Participant, is a financial asset held by CDS for that Participant and subject to its control. The Participant has control and possession of the Securities and financial assets credited to that Participant's Collateral Accounts for all purposes, including the perfection of a security interest. As between the pledgee Participant and the pledgor Participant, and without derogating from the grant of the Surety Security Interest and the Category Credit Ring Security Interests, Pledged Securities and Pledged funds credited to the pledgee Participant's Collateral Account can be dealt with solely in accordance with the instructions of the pledgee Participant, without reference to or consent by the pledgor Participant or to any person claiming through it or as its successor or representative. A Pledge of funds is subject to any repayment terms of any agreement between the Participants, and unless otherwise agreed the pledgor Participant has no right to the repayment of the Pledged funds except upon discharge of the debt or other obligation for which the funds were Pledged. CDS is under no obligation to verify the terms of any Pledge or compliance with the terms thereof by any Participant. So long as the Pledged Securities or funds remain in the Collateral Account of the pledgee Participant to whom they are Pledged, CDS also reflects the delivery of such Securities or funds in the Pledge Account for the pledgor Participant who made the Pledge. The record of the Pledged Securities or Pledged funds shall be deleted from the Pledge Account of the pledgor Participant when the pledgee Participant to whom the Securities or funds were Pledged directs that the Pledged Securities or funds be transferred from its Collateral Account. On Payment Exchange, Pledged funds are transferred from the pledgee's Collateral Account to its Funds Account. When Pledged funds are transferred from the pledgee's Collateral Account to its Funds Account or are transferred at its instructions to the Funds Account of the pledgor Participant, the Pledged funds cease to be a financial asset.

7.5.5 ~~7.6.5~~ Payment

Payment between Participants, or for a Central Counterparty Obligation between CDS and the Participant, is effected by the making of entries debiting the Funds Account or Collateral Account maintained for the payor Participant or CDS and crediting the Funds Account or Collateral Account maintained for the payee Participant or CDS. The making of such entries effects final and irrevocable payment between the Participants, or final

and irrevocable Settlement of the Central Counterparty Obligation between the Participant and CDS. Such entries shall be made by CDS to effect a Funds Transfer, to effect a Pledge, or to Settle a Trade or Central Counterparty Obligation (and if a delivery of Securities is also involved in that Settlement, the payment entries shall be made simultaneously with the making of the entries in the Ledgers maintained by CDS to effect the delivery).

7.5.6 ~~7.6.6~~ Novation Upon Settlement

Upon the making of the entries by CDS to effect delivery of the Securities, any obligation between the Participants arising from the Trade, or between CDS and the Participant arising from the Central Counterparty Obligation, to deliver Securities is extinguished and replaced by the obligation of CDS pursuant to Rule 4.2.4 to deliver to the Participant the Securities shown in the Participant's Securities Account. Upon the making of the entries by CDS to effect payment, any obligation between the Participants arising from the Trade, or between CDS and the Participant arising from the Central Counterparty Obligation, to make such payment is extinguished and replaced by the obligation to make and the right to receive payment on Payment Exchange between the Participants and CDS as recorded in the Participants' Funds Accounts.

7.5.7 ~~7.6.7~~ Finality of Settlement

The making of entries in the Ledgers maintained by CDS to effect a delivery of Securities or a payment effects final and irrevocable delivery or payment to and from the Participants in whose Ledgers such entries are made. If the entries are made to Settle a Central Counterparty Obligation, such entries effect final and irrevocable delivery or payment between CDS and the Participant. The finality of the Settlement of a Central Counterparty Obligation does not affect the separate obligation to make payment on Payment Exchange between CDS and the Participant that is evidenced by any Funds Account balance in a Ledger of a Participant.

9.2. GENERAL DESCRIPTION OF PROCESS ON SUSPENSION

9.2.1 Restriction of System Functionality

Immediately upon the suspension of a Participant, CDS shall restrict the right of the Participant to use all system functionality for all Services. Such restriction may be lifted in whole or in part by CDS in its discretion as may be required to complete an orderly discharge of the Participant's obligations in accordance with this Rule 9.

9.2.2 Central Counterparty Functions

If a Participant using any Central Counterparty Function is suspended, then the following steps shall be taken in addition to the other steps described in this Rule 9.

(a) Marks

Notwithstanding the suspension of the Participant, Marks shall continue to be calculated and owed in respect of each of its outstanding Central Counterparty Obligations.

(b) Unprocessed Trades

Any of its Trades that have not yet been processed through ~~FINet or~~ CNS shall be ineligible for ~~such Functions~~ [the CNS Function](#).

9.2.3 Retention of Positive Balances upon Suspension

If a suspended Participant has a positive balance denominated in any currency credited to any Funds Account or Restricted Collateral Account in any Ledger, then CDS shall not pay such positive balance to the suspended Participant. CDS shall exercise its right of retention in respect of any such positive balance. CDS may debit the positive balance from the suspended Participant's Ledger and credit it to a Collateral Administration Ledger of CDS.

9.2.4 Effect of Suspension on Book Entry Payment Method

When a Participant is suspended, the attribution of amounts pursuant to the Book Entry Payment Method shall be reversed in accordance with Rule 8.4 and any payment made by a Qualified Banker on behalf of a suspended Customer shall be treated as set out in Rule 8.4.14.

9.2.5 Payment Exchange

Immediately upon the suspension of a Participant, CDS shall take the steps in accordance with Rule 5 necessary to ensure that Payment Exchange is completed for that day, including:

9.4.12 Credit Ring Obligation for Other Defaulters

A Withdrawing CCP Participant continues to be subject to its Fund Credit Ring obligations pursuant to Rule 5.7, as modified by this Rule 9.4, with respect to the obligation of any Defaulter who uses the CCP Function from which it is withdrawing and who is suspended on or before the day that is fifteen Business Days after the day on which the Withdrawing Participant exercised the CCP Withdrawal Option. The total amount paid by the Withdrawing CCP Participant with respect to the obligation of all Defaulters who are suspended after the suspension of the Suspended CCP Participant shall not exceed the amount of its Final Contribution less any amount paid by the Withdrawing CCP Participant in respect of its Fund Credit Ring obligations for the Suspended CCP Participant. In respect of such Defaulters who use the CNS Function.:

- (a) the proportionate share of the Withdrawing CCP Participant and of each other Fund Member shall be based on their respective Contributions to the Fund at the time of the suspension (which for the Withdrawing CCP Participant shall be considered to be its Post-Withdrawal Contribution), provided that if the then unapplied amount of the Withdrawing CCP Participant's Final Contribution is insufficient to pay its proportionate share in full, the proportionate shares of each other Fund Member shall be increased accordingly; and
- (b) the Final Contribution of the Withdrawing CCP Participant shall be applied first in respect of the Suspended CCP Participant and then any excess shall be applied in respect of the first successive Defaulter and any excess remaining thereafter shall be applied in respect of any other Defaulter in the order in which such Defaulters are suspended.

~~In respect of such Defaulters who use FINet:~~

- ~~(a) the proportionate share of the Withdrawing CCP Participant shall be calculated as set out in the Procedures;~~
- ~~(b) the Final Contribution of the Withdrawing CCP Participant shall be applied first in respect of the Suspended CCP Participant and then any excess shall be applied in respect of the first successive Defaulter and any excess remaining thereafter shall be applied in respect of any other Defaulter in the order in which such Defaulters are suspended; and~~
- ~~(c) the proportionate share of each Fund Member other than the Withdrawing CCP Participant for the obligations of any such Defaulter shall be calculated in accordance with the Procedures after taking into consideration the amount paid by the Withdrawing CCP Participant in respect of that Defaulter.~~

9.4.13 Refund of Final Contribution

A Withdrawing CCP Participant shall not be entitled to any refund of its Final Contribution until the later of (i) the date on which it has Settled all of its Central Counterparty Obligations arising from the CCP Function from which it is withdrawing

and (ii) the date on which CDS has determined its Fund Credit Ring obligations with respect to the Suspended CCP Participant and all Defaulters who used that CCP Function and the Withdrawing CCP Participant has paid such obligations.

9.4.14 Discretion re Selective Processing in CNS ~~and FINet~~

(a) Discretion re Selective Processing in CNS ~~and FINet~~

A Withdrawing CCP Participant shall Settle all of its outstanding Central Counterparty Obligations for the CCP Function from which it is withdrawing as soon as possible after it has exercised the CCP Withdrawal Option. Notwithstanding the restriction of the Withdrawing CCP Participant's right to use the CCP Function, CDS may at the request of the Withdrawing Participant permit particular eligible Transactions of that Withdrawing CCP Participant to be processed through CNS ~~or FINet~~, provided that CDS determines such processing is likely to reduce the Withdrawing CCP Participant's outstanding Central Counterparty Obligations for that CCP Function. The selection of Transactions to be so processed shall be made on the basis of criteria set out in the Procedures.

(b) Exercise of Discretion

In exercising its discretion under this Rule 9.4.14, CDS shall take reasonable care in what it, in good faith, considers to be in the best interests of CDS and of all Participants. CDS shall not be liable to any Participant including the Withdrawing CCP Participant for any loss, damage, cost, expense, liability or claim arising from the exercise of its discretion to select particular eligible Transactions of a Withdrawing CCP Participant for processing through CNS ~~or FINet~~.

9.4.15 Reinstatement

A Participant who has exercised the CCP Withdrawal Option may at any time be reinstated by the Board of Directors upon notice to CDS of the Participant's request for reinstatement and on conditions determined by the Board, provided the Participant is then eligible to use the CCP Function, pays any reinstatement fee determined by the Board and meets any other conditions set by the Board. The Board of Directors may approve or reject a request for reinstatement in its discretion. CDS may require that a Participant's application for reinstatement be deferred for a minimum period of time following its withdrawal from a CCP Function.

- (a) shall confirm or reject the Deposit and Withdrawal of Securities and shall provide a Closing Balance Report to CDS, with respect to all CDSX eligible Securities for which it is the Transfer Agent;
- (b) may act as a Depository Agent (including a CDSX Depository Agent) or Entitlements Processor;
- (c) 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 or as permitted when classified under another limited purpose Participant category;
- (d) may not make Lines of Credit available to other Participants;
- (e) may not use Lines of Credit made available by an Extender of Credit or by the Active Federated Participant;
- (f) may not use the CNS ~~or FINet Functions~~ [Function](#);
- (g) may not act as the ISIN Activator or Securities Validator for a Security; and
- (h) may not act as a Custodian.

11.2.5 Exclusion from Credit Ring and Debit Ring

A TA Participant is not a member of a Credit Ring or of a Debit Ring.

11.2.6 Representation of TA Participant

A TA Participant represents and warrants to CDS and to all other Participants that its actions with respect to each eligible Security pursuant to this Rule are within its capacity and within the scope of the authorization received by it from the Issuer of the eligible Security. Each TA Participant shall be liable as principal for all of its obligations pursuant to this Rule, including obligations arising from representations and warranties made by it, whether it is acting on its own behalf or on behalf of an Issuer. The foregoing representation and warranty by each TA Participant, and its assumption of obligations under this Rule 11 shall not limit any liability that may attach to the Issuer of any eligible Security or to the TA Participant as the Transfer Agent of the Issuer under general principles of law or by operation of any applicable statute or regulation. A TA Participant is not required to perform any obligation to CDS if such performance would conflict with an order of a court or Regulatory Body having jurisdiction over the TA Participant.

11.2.7 Limitation of Responsibility of TA Participant

A TA Participant shall have no discretion with respect to the registration, holding or transfer of Securities Deposited into the Depository Service and shall act only in accordance with the directions of CDS. In accordance with the directions of CDS, such

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"Bank of Canada" means the central bank of Canada formed under the *Bank of Canada Act* (Canada).

"Board of Directors" or "Board" means the Board of Directors of CDS.

"Bond Rating Service" means a service providing to the public a rating of the short-term and long-term debt issued by Issuers (including Participants) and includes:

- (i) "DBRS" Dominion Bond Rating Service;
- (ii) "Moody's" Moody's Bond Record; and
- (iii) "S&P" The Bond Guide issued by Standard & Poor's Rating Services.

"Book Entry Payment Method" means the process described in Rule 8.4 by which the payment obligations owing between a Participant and CDS may be discharged on Payment Exchange.

"Business Day" means any day on which the CDSX system is available to process Transactions.

"CA Liability Record" has the meaning ascribed to that term in Rule 6.8.5.

"CALMS" means the Corporate Action Liability Management Service described in Rule 6.8.5.

"CBA" means The Canadian Bankers Association.

"CCP Cap" means the threshold amount with respect to the CCP Functions that if exceeded requires the pledging of CCP Collateral, which threshold amount is established in accordance with Rule 5.14.

"CCP Collateral" means CCP Collateral as the term is defined in Rule 5.2.4.

"CCP Contributions Total" means an amount determined in accordance with the Procedures as described in Rule 5.14 taking into account the Contributions required to be made by the Participant to the Funds for all of the CCP Functions used by it.

"CCP Function" means the CNS Function for processing Trades by novation and netting prior to Settlement.

"CCP Withdrawal Option" means the CCP Withdrawal Option described in Rule 9.4.

"CDCC" means the Canadian Derivatives Clearing Corporation.

"CDCC Interface" means the process by which CDS reports Trades identified with a Mode of Settlement of SNS to CDCC for clearing prior to such Trades being settled through the CDS Services.

as determined by the Participant's auditors in the financial statements filed by the Participant with the Canadian Regulatory Body that has primary jurisdiction over the Participant, provided that the Board may from time to time determine how Capital shall be calculated for the purposes of a particular Rule

"Capped Participant" means a Participant who is an Extender, Settlement Agent, Active Federated Participant or RCP Receiver and who has a System-Operating Cap.

"Category Credit Ring" means one of the groups of Participants described in Rule 5.9 that are classified into a particular category and that guarantee the payment to CDS of certain obligations of all other Members of that Category Credit Ring. "Category Credit Ring Agreement" means one of the common form agreements among all Members of certain Category Credit Rings referred to in Rule 2.3.3. "Category Credit Ring Collateral" means the collateral described in Rule 5.11.2 that is subject to Category Credit Ring Security Interests. "Category Credit Ring Security Interests" means the security interests granted by a Member of a Category Credit Ring described in Rule 5.11.2.

"Central Counterparty Obligation" means the reciprocal obligations and rights between CDS and a Participant as the result of the processing of Trades, prior to Settlement, in the CNS Function. Under a Central Counterparty Obligation, (i) either CDS or the Participant has an obligation to deliver Securities and a right to receive payment for such delivered Securities, and (ii) the other party has the corresponding right to receive Securities and the corresponding obligation to make payment. A Central Counterparty Obligation is a CNS Obligation.

"Collateral" means, with respect to a suspended Participant:

- (i) its Contributions to a Collateral Pool;
- (ii) its Contributions to a Fund;
- (iii) its Settlement Service Collateral;
- (iv) its Specific Collateral; and
- (v) its CCP Collateral.

"Collateral Account" means an Account to record Securities and funds that have been Pledged to the Participant and that are held by CDS for that pledgee Participant. A "Restricted Collateral Account" is a Collateral Account that is a Risk Account. "Collateral Administration Ledger" means a CDS Ledger used for the management and control of collateral held by CDS, as described in Rule 5.3. "Collateral Pool" means one of the collateral pools established by certain Category Credit Rings pursuant to Rule 5.12.

"Collateral Pool Contribution" means the contribution made to its Collateral Pool by a Member of a Category Credit Ring.

"Fedwire" means the system for the transfer of money operated by the Federal Reserve System of the United States of America.

"Final Contribution" means the Fund Contribution, to the Fund for the CCP Function from which the Withdrawing CCP Participant intends to withdraw, which is the total of the Withdrawal Contribution and the Original Contribution of the Withdrawing CCP Participant, as calculated pursuant to Rule 9.4.7.

"Financial Institution" means any one of the following:

- (i) a bank named in Schedule I or II to the *Bank Act* (Canada);
- (ii) an institution regulated pursuant to an *Act respecting financial services cooperatives* (Québec);
- (iii) a trust company or corporation, a loan company or corporation, a credit union, a savings and credit union or a credit union central, which is incorporated and regulated under the laws of Canada or any province or territory thereof; or
- (iv) a crown corporation created pursuant to and governed by the *Alberta Treasury Branches Act* (Alberta).

"Foreign Custodian" means a Person who has been appointed by CDS to perform the duties of a Foreign Custodian for CDS with respect to Securities held for Participants in the Depository Service.

"Foreign Institution" means a Person:

- (i) 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; and
- (ii) that is a broker or dealer trading in Securities, a bank or savings bank, a trust company or corporation, a loan company or corporation, an insurance company or corporation, a securities clearing corporation or depository, a central bank or any other Person trading in Securities.

"Formula Amount" means a factor used in the calculation of the System-Operating Cap of a Capped Participant, as described in Rule 5.10.

"Function" means a method of processing Trades in respect of a Service. CDS may make available more than one Function in respect of any given Service. Functions include the Functions described in the Procedures and the CNS Function for processing Trades by novation and netting prior to Settlement.

"Fund" means one of the Funds established pursuant to Rule 5.7 with respect to a Service or Function.

"Fund Contribution" means the contribution made by each Fund Member pursuant to Rule 5.8, in which the Fund Member grants a security interest in favour of CDS.

"Fund Credit Ring" means one of the groups of Participants described in Rule 5.7 that are Members of a Fund and that guarantee the payment to CDS of certain obligations of all other Members of that Credit Ring.

"Fund Member" means a Participant who makes use of the Service or Function in respect of which a Fund is established and that is required to contribute to such Fund.

"funds" means the obligation owing to CDS by a Participant or by CDS to a Participant, which is evidenced by a negative or positive balance respectively in that Participant's Funds Account.

"Funds Account" means an Account to record by currency the net amount from time to time owing between CDS and the Participant arising from the Participant's use of the Depository Service and the Settlement Service.

"Funds Transfer" means a Transaction between any two Participants, or between CDS and any Participant, by which the Funds Account of one of them is debited with a certain amount and the Funds Account of the other is credited with a corresponding amount.

"General Account" means a Securities Account that is a Risk Account.

"Government Body" means the Government of Canada or the Government of any province or territory of Canada or any municipality in Canada, or any of their agencies.

"Hypothec" has the meaning set forth in Rule 5.2.9. "Inter-Surety Agreement" means the agreement made among all Sureties referred to in Rule 2.4.9.

"ISIN Activator" means a Participant who performs the activities of an ISIN Activator set out in Rule 2.5.3.

"Issuer" includes a Person other than an individual that meets one or more of the following criteria (including, where applicable, a Participant):

"User" means an individual who on behalf of a Participant is given the ability (whether by the assignment of an Authentication Mechanism or otherwise) to access computer processing activities for real time or batch Services.

"User Administrator" means an individual appointed by a Participant to give individual Users the ability on behalf of the Participant to access computer processing activities for real time or batch Services.

"User Guide" means one of the user guides in the form prescribed by CDS from time to time for a Service, and includes the on-line help terminal video displays made available as part of the systems which are accessed in accordance with the User Guides. and

"Value Date" means the date on which the parties to a Trade Obligation have agreed that the Trade Obligation is to be Settled.

"Withdrawal Account" means an Account to record Securities held by CDS for the Participant, with respect to which the Participant has made a withdrawal request that has not yet been confirmed.

"Withdrawal Contribution" means the additional Fund Contribution to the Fund for the CCP Function in respect of which the Withdrawing CCP Participant has exercised the CCP Withdrawal Option, which is made by the Withdrawing CCP Participant upon giving notice to CDS of its exercise of the CCP Withdrawal Option.

"Withdrawing CCP Participant" means a Participant who has exercised the CCP Withdrawal Option.

agreement between a securities and derivatives clearing house and a clearing member within the meaning of section 13.1 of that Act.

1.3.13 Eligible Financial Contract

CDS and each Participant acknowledge that:

- (i) a Central Counterparty Obligation constitutes an eligible financial contract between CDS and the Participant;
- (ii) the obligations of a Participant and of CDS arising from the Settlement of a Trade or any other Transaction, for CDS to deliver to the Participant the Securities shown in the Participant's Securities Account and for the Participant to make or receive payment on Payment Exchange as recorded in the Participant's Funds Account, constitute an eligible financial contract between CDS and the Participant;
- (iii) the obligations of a Participant and of CDS arising from the Cross-Border Services constitute an eligible financial contract between CDS and the Participant; and
- (iv) each of the Participant Agreement, the Rules and the Legal Documents constitute master agreements in respect of such eligible financial contracts and accordingly are also eligible financial contracts between CDS and each Participant, and between Participants.

The Rules and the Legal Documents shall be interpreted so as to ensure that CDS or a Participant, as the case may be, is accorded the rights and powers of a party to an eligible financial contract pursuant to the *Bankruptcy and Insolvency Act*, the *Companies' Creditors Arrangement Act*, the *Winding-Up and Restructuring Act*, the *Canada Deposit Insurance Corporation Act* or any similar legislation.

1.3.14 Finality

Entries are made in the Ledgers maintained for Participants and for CDS to record Transactions involving two Participants or CDS and a Participant, including the deposit, withdrawal and delivery of Securities, the novation and netting of Transactions through the CNS Function, and the making of payment. Such entries are final and irrevocable when made. The settlement of a payment obligation between CDS and a Participant is final and irrevocable once made, and however made, including by payment to or from an account of CDS at Bank of Canada, by a payment message through Fedwire, by payment to or from an account of CDS at its banker for any Cross-Border Service, or by payment to or from the Participant's Qualified Banker or Designated Payment Agent. Such final and irrevocable entries and payments cannot be deleted, adjusted, reversed, repaid or set aside. CDS and the Participants shall be entitled to an accounting with respect to any Transaction, but any errors may be corrected only by the making of new entries or payments in accordance with the Rules as the circumstances may require.

transfer Securities to the Ledger of another Participant through the Settlement Service. On behalf of the Participants, and on CDS's own behalf and on behalf of other Participants pursuant to the security interests granted by the Participants pursuant to Rule 5, with respect to each Security deposited in the Depository Service, CDS has control and possession of the Security, or as an entitlement holder has a security entitlement and the corresponding rights and property interest with respect to a financial asset credited to a securities account maintained for CDS by a Foreign Custodian. On request by a Participant, CDS shall deliver to the Participant the Securities held by CDS for the Participant as shown in the records of CDS for the Participant's Securities Accounts.

1.6.5 Settlements

Settlement is effected on a delivery versus payment basis. Trades are reported to CDS to be Settled by the delivery of Securities and the making of payment. A Trade may be Settled either (i) without pre-Settlement netting using the Trade-For-Trade method, or (ii) with pre-Settlement novation and netting using the CNS Function to process Central Counterparty Obligations. Trades are subject to various edits, including the Aggregate Collateral Value Edit to monitor the amount of collateral available to support the Participant's obligations.

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 Accounts so as to make payment and deliver Securities between the Participants. Securities may be delivered by the book delivery of Securities held in the Depository Service. If a Trade is Settled using Certificate Based Settlement, the Securities are delivered by the physical delivery of a Security Certificate evidencing the Securities. Upon Settlement of a Trade, the obligations between the Participants to deliver Securities and to make payment are extinguished and replaced by obligations between CDS and the Participants to deliver the Securities shown in the Participants' Securities Accounts and to make payment as recorded in the Participants' Funds Accounts.

1.6.6 Payment Exchange

During Payment Exchange for each currency on each Business Day, by means of Acceptable Payments, CDS receives payment from and makes payment to Participants of obligations arising from their use of CDSX. The obligations owing between a Participant and CDS may be discharged on Payment Exchange by means of the Book Entry Payment Method or by an Acceptable Payment.

1.6.7 Credit Rings

All Participants (other than Bank of Canada) are Members of a Category Credit Ring, by which each Member guarantees the payment to CDS of certain obligations of the other Members of that Category Credit Ring. All Participants using certain Functions are Members of a Fund Credit Ring for that Function, by which each Member guarantees

agreement between such Participants. Where a Trade is submitted to CDS with a Third Party Clearing System Mode of Settlement, and where such Trade is rejected by the TPCS, CDS may, in accordance with the Procedures, and at any time prior to Settlement, modify the Mode of Settlement of a confirmed Trade between two Participants from its initial Mode of Settlement.

3.3.10 Termination of a Service or Function

CDS intends to offer the Services indefinitely but may suspend or terminate the operation of any Service or Function with the approval of the Board of Directors. CDS shall give notice to Participants of any proposal to suspend or terminate any Service or Function, at least 30 days before the effective date of the suspension or termination, provided that such notice may be abbreviated if the suspension or termination is for reasons outside the control of CDS.

5.7. CREDIT RINGS FOR FUNDS

5.7.1 Establishment of Funds

Each Participant who uses the CNS Function must become a Member of the Fund established for that Function:

Each Member of a Fund is part of the Fund Credit Ring. Each Member of a Fund Credit Ring guarantees payment to CDS of certain obligations of a suspended Member pursuant to this Rule 5.7. Each Member of a Fund makes Contributions to that Fund pursuant to Rule 5.8.

5.7.2 Payment by Fund Credit Ring

Each Member of a Fund is also a Member of the Credit Ring for that Fund. If CDS has been unable to collect from a Defaulter who is a Member or a former Member of a Fund for a Function an obligation to CDS arising from the Defaulter's use of such Function, then each other Member of that Fund shall pay to CDS its proportionate share of that obligation forthwith upon request by CDS. If any Member fails or refuses to pay its proportionate share of an obligation pursuant to this Rule 5.7 it will be considered to be a "subsequent Defaulter". Each other Fund Member who makes payment to CDS of its proportionate share of the obligation of a Defaulter and of each subsequent Defaulter will be considered to be a "Survivor". Each other Fund Member, upon request by CDS, shall pay to CDS its proportionate share of the obligation of such subsequent Defaulter, and so on with respect to all failures or refusals of other Members to pay their respective proportionate shares, until the full amount of the obligation owing by the Defaulter to CDS has been paid. References to a Defaulter or a Survivor shall be deemed to refer to a subsequent Defaulter or to a Fund Member that makes payment to CDS of its proportionate share of the obligation of a subsequent Defaulter, respectively, *mutatis mutandis*. The Credit Ring for a Fund has no obligation to CDS with respect to any obligation of a Participant arising from that Participant's use of another Function.

5.7.3 Defaulter's Obligation

The obligation referred to in Rule 5.7.2 of a Defaulter who is a Member of a Fund is the total of

- (a) Marks owed by the Defaulter arising from its use of the Function for which the Fund is established (including Marks calculated in respect of its Central Counterparty Obligations after the Defaulter is suspended); and
- (b) the net termination value of all of the Defaulter's Central Counterparty Obligations arising from its use of that Function.

The obligation of a Defaulter may be denominated in Canadian dollars or in US dollars or in both and the aggregate obligation in all currencies is the Debtor's obligation.

5.7.4 Calculation of Proportionate Share

Any request by CDS for payment pursuant to Rule 5.7.2 shall specify the effective time on the effective date to be used to calculate the Member's proportionate share of the obligation and shall provide details of that calculation. The effective date and time shall be the date and time of the suspension of the Defaulter or subsequent Defaulter, unless the Board of Directors determines that another date and time shall be used for such calculation. The Board of Directors, acting reasonably in the best interest of CDS and of Participants generally, may fix the effective time on the effective date for the calculation of proportionate shares. A Member's proportionate share of an obligation shall be in the same proportion to the obligations of all other Members that the Member's Fund Contribution to the Fund established for the Function in respect of which the obligation has arisen is of the total of all Fund Contributions required to be made to that Fund by all Members (other than the Defaulter). In calculating a Member's proportionate share of the obligation of a subsequent Defaulter, the Fund Contributions to the Fund of the Defaulter and of each subsequent Defaulter shall be excluded from the calculation. If a Member's Fund Contribution is denominated separately in Canadian dollars and in US dollars, then for the purposes of this Rule 5.7.4, the calculation of the proportionate share shall be made using the aggregate Contributions, converting the US dollar Contributions to a Canadian equivalent using an exchange rate determined by CDS.

5.7.5 Continuing Obligation

The obligation of a Member of a Fund Credit Ring pursuant to this Rule 5.7 is a continuing obligation and is not discharged in whole or in part by, and each Member shall make payment as required by Rule 5.7.2 without regard to:

- (a) any payment made by the Defaulter or by another Member;
- (b) the suspension, termination or withdrawal of any Member of the Fund Credit Ring as a Participant; or
- (c) any defences, claims, counterclaims, statutory or contractual rights of set-off or rights of offset arising between the Defaulter and the Member or between CDS and the Defaulter or between CDS and the Member.

5.7.6 Actions by CDS

The liability of a Member of a Fund Credit Ring pursuant to this Rule 5.7 shall not be affected by any act or failure to act of CDS or of the Defaulter. Without limiting the generality of the foregoing:

- (a) The details of Trades between Participants that are to be Settled through the Service are reported to CDS.
- (b) If the Trade instructions specify a TPCS Mode of Settlement, the Trade is reported to the TPCS.
- (c) If the Trade instructions pass the pre-entry system edits, the Trade is entered into the system to be considered for Settlement.
- (d) A Trade may be Settled either (i) without pre-Settlement netting using the Trade-For-Trade method, or (ii) with pre-Settlement novation and netting using the CNS Function to process Central Counterparty Obligations.

- The Settlement of each pending Trade using the Trade-for-Trade method is effected by means of payment and delivery of Securities between Participants. The Settlement of each outstanding Central Counterparty Obligation is effected by means of payment and delivery of Securities between Participants and CDS. Payment is made through the Settlement Service by book entry on the records of CDS. Securities are delivered either by the book delivery on the records of CDS of Securities held in the Depository Service or by the physical delivery of Security Certificates (if the Trade is to be Settled using the Certificate Based Settlement method).
- (e)

- If the Trade is reported with a TPCS Mode of Settlement, and the Third Party Clearing System has netted the Trade prior to the position's having been reported to CDS, the Trade representing the netted position will Settle on a Trade-for-Trade basis between the Participant and the Third Party Clearing System.
- (f)

- (g) There are three Settlement processes: the Real Time Continuous Net Settlement Process, the Real Time TFT Settlement Process the Combined Batch Net Settlement/Continuous Net Settlement Process.

7.1.2 Overview of Netting Prior to Settlement

A Trade may be Settled either (i) without pre-Settlement netting using the Trade-For-Trade method, or (ii) with pre-Settlement novation and netting using the CNS Function to create and revise Central Counterparty Obligations.

When a Trade is Settled without netting using the Trade-for-Trade method, the Participants who are parties to the Trade retain their identity as deliverer and receiver, and as payee and payor, with respect to that Trade until Settlement between those Participants is completed.

A Trade may be processed prior to Settlement through the CNS Function, if the CNS Function applies automatically to that class of Trades or if the following conditions are met: (i) both Participants to the Trade use the CNS Function; (ii) the Security with respect to which the Trade is made is eligible for the CNS Function; and (iii) both Participants specify the use of the CNS Function for the Settlement of that Trade.

When a Trade is processed in the CNS Function prior to Settlement, each of the obligations of the Participants who are the parties to the Trade is first novated to obligations between each Participant and CDS and the resulting novated obligation with CDS is then netted with each Participant's like obligations with CDS to calculate the Central Counterparty Obligation to be Settled between that Participant and CDS. Under a Central Counterparty Obligation, (i) either CDS or the Participant has an obligation to deliver Securities and a right to receive payment for such delivered Securities, and (ii) the other party has the corresponding right to receive Securities and the corresponding obligation to make payment.

7.1.3 Ledgers and Accounts

For each Participant, CDS maintains one or more Ledgers. CDS also maintains one or more Ledgers for itself. Within each Ledger, there are a number of Accounts for funds and Securities. The Ledgers and Accounts are more fully described in Rule 6.1 and Rule 8.1.

7.1.4 Delivery of Securities and Making of Payment

When a Trade is settled on a delivery versus payment basis, the delivery of the Securities and the payment occur simultaneously. The Settlement of each pending Trade using the Trade-for-Trade method is effected by means of payment and delivery of Securities between Participants. The Settlement of each outstanding Central Counterparty Obligation is effected by means of payment and delivery of Securities between the Participant and CDS. References in these Rules to entries made on the Ledgers of Participants for the Settlement of a Central Counterparty Obligation include, unless the context otherwise requires, entries made on the Ledgers maintained by CDS for itself. Delivery of Securities is made to or from CDS from or to a Participant. Payment is made through the Settlement Service by book entry on the records of CDS. Securities are delivered either by the book delivery on the records of CDS of Securities held in the Depository Service, or by the physical delivery of a Security Certificate (if the Trade is to be Settled using the Certificate Based Settlement method). CDS makes entries to the Ledgers maintained by it for the parties to the Trade or Central Counterparty Obligation, to debit and credit the appropriate Accounts so as to make payment and, if the Settlement uses book delivery, to deliver Securities. Upon Settlement of a Trade, the obligations arising from the underlying Trade between the Participants (or, if the Settlement relates to a Central Counterparty Obligation, the obligations between CDS and the Participant evidenced by that Central Counterparty

(c) Trade-for-Trade Settlement of Trades reported by Third Party Clearing System

Trades reported from a TPCS to CDS shall Settle on a Trade-for-Trade basis in accordance with Rule 7.4.2, with the TPCS as the counterparty to each Trade.

(d) Partial Delivery by Third Party Clearing System

When an outstanding TPCS Obligation is considered for TFT Settlement and the Settlement of the entire TPCS Obligation would not pass the pre-Settlement edit, but a partial Settlement of the TPCS Obligation would pass the pre-Settlement edits, then CDS may modify the original Trade in order to partially Settle that portion of the Trade which would otherwise be eligible for TFT Settlement but for the restriction of Rule 7.4.2(d). Partial Settlement of a TPCS obligation results in the deletion of the original Trade and the creation of two new Trades, one for the amount of the available Securities or Funds, and one for the outstanding remainder. The former Trade will Settle by the delivery of only some of the Securities required and the making of a corresponding partial payment; the latter Trade will remain outstanding, to be reconsidered for Settlement. A pending Trade that constitutes the remainder of a partial Settlement may itself be partially Settled by the same process as defined herein.

7.3. CONTINUOUS NET SETTLEMENT FUNCTION

7.3.1 Overview of CNS Function

The Continuous Net Settlement Function or CNS is a Function to net eligible Trades. CNS calculates CNS Obligations owing from time to time between a Participant and CDS by novating, on Value Date, the obligations between the Participants arising from an eligible Trade to obligations with CDS and by netting all of a Participant's like obligations with CDS. Each resulting CNS Obligation is a Central Counterparty Obligation that is Settled on its Value Date through the Settlement Service.

7.3.2 Eligibility

Pursuant to Rule 2.2.8, the Board may impose such additional qualifications and standards for Participants eligible to use CNS as the Board considers necessary or desirable for the protection of CDS and of other Participants using CNS. CDS shall determine the Trades that are eligible for processing in CNS, based on any characteristic that CDS determines is relevant, including the class of Securities to be delivered in such Trade and the Value Date of the Trade.

A Trade may be processed prior to Settlement through CNS, if CNS applies automatically to that class of Trades or if all of the following conditions are met: (i) both Participants who are parties to the Trade use CNS; (ii) the Security with respect to which the Trade is made is eligible for CNS; and (iii) the use of CNS for the Settlement of that Trade is specified (1) by both Participants who are parties to the Trade, (2) by the Exchange, trading system, service bureau or other third party service provider that reported the Trade on behalf of the Participants, or (3) in the case of Trades processed through the CDSX trade matching function, by either or both of the Participants who are parties to the Trade.

7.3.3 Novation of Trades Prior to Settlement

When a Trade is processed in CNS, the Settlement obligations and rights between the Participants arising from the Trade (to deliver Securities and to receive payment, or to receive Securities and to make payment) are extinguished and replaced by corresponding Settlement obligations and rights between each Participant and CDS, with the result that all such obligations of each Participant are owed to CDS and all such rights of each Participant are against CDS. The novated obligations and rights between CDS and each Participant shall be due as of the Value Date of the Trade. To the extent, if any, that the novation of the Settlement obligations and rights affects any of the terms and conditions of the underlying Trade between the Participants that was to be Settled by the Trade, such terms and conditions shall be deemed to be amended, required to be performed and to have effect in a manner consistent with Settlement by CNS processing (unless the Participants expressly agree otherwise).

7.3.4 Netting of Novated Trades

Each time a Trade between Participants is processed in CNS, the novated obligations and rights between each Participant and CDS are netted with their like novated obligations and rights in order to calculate the single CNS Obligation with that Value Date, for that issue of Securities and in that currency then-outstanding between that Participant and CDS. One CNS Obligation is a like obligation to another CNS Obligation if each is a CNS Obligation of that Participant to CDS, and of CDS to that Participant, with the same Value Date, denominated in the same currency, for the same issue of Securities, and resulting from other Trades of that Participant previously processed through CNS. A Participant's CNS Obligations are like obligations and may be netted even if under one CNS Obligation, CDS has the obligation to deliver Securities to the Participant and the right to receive payment from the Participant, while under the other

CNS Obligation, CDS has the right to receive Securities from the Participant and the obligation to make payment to the Participant, and *vice versa*. CDS maintains a record of the CNS Obligations of each Participant outstanding from time to time, to record by Value Date for each issue of Securities (i) the obligation of the Participant to deliver Securities to CDS and the right of the Participant to receive payment from CDS, or (ii) the obligation of the Participant to receive Securities from CDS and the right of the Participant to make payment to CDS.

7.3.5 CNS Process

The netting of the obligations and rights arising from a novated Trade occurs simultaneously with the novation of that Trade, to calculate a single CNS Obligation due on each Value Date for each issue of Securities and denominated in the same currency. Such novation and netting occur when entries are made in the records maintained by CDS, deleting the Trade between the Participants and recording new or recalculated CNS Obligations between each of the Participants and CDS. The entries for each Trade are processed concurrently on a committed basis, with the result that (i) either all of the entries are made to delete the Trade and record CNS Obligations or none of the entries is made, and (ii) the deletion and the recording occur simultaneously. CDS shall provide Participants with information showing each of the Trades that has been deleted upon being processed in CNS, to assist Participants in reconciling their records. For greater certainty, the fact that CDS provides archival records of the deleted Trades shall not detract from the finality of the novation of any Trade once processed in CNS, and such records shall not constitute evidence of any obligation owing between the Participants to a deleted Trade.

7.3.6 Marks

(a) Daily Mark

For each Business Day that a CNS Obligation is outstanding, CDS shall calculate in accordance with the Procedures the daily Mark in respect of that CNS Obligation. The daily Mark reflects the then-current market price of the Securities that are to be delivered or received on Value Date by the Participant in respect of that CNS Obligation. The daily Mark is an amount that shall be paid on that Business Day either to CDS by the Participant owing the CNS Obligation, or by CDS to that Participant. In addition, on that Business Day the payment component of the CNS Obligation is adjusted by the amount of the daily Mark.

(b) Fail Mark

In addition, to encourage the timely Settlement of CNS Obligations, CDS may impose a fail Mark in respect of any delayed or partial delivery of the Securities to be delivered pursuant to a CNS Obligation or in respect of any delayed or partial payment to be made pursuant to a CNS Obligation. CDS shall calculate in accordance with the Procedures the fail Mark, which will reflect the financing cost of the delayed or partial Settlement. If imposed, the fail Mark shall be paid to

CDS by participants who failed to deliver Securities to CDS or to make payment to CDS, and shall be paid by CDS to participants to whom CDS failed to deliver Securities or to make payment. The payment component of the CNS Obligation is not adjusted by the amount of the fail Mark.

(c) Payment of Net Mark

CDS calculates a net amount owing to or by each Participant in respect of Marks for CNS by netting all CNS Marks to be paid or received by that Participant and the net CNS Mark is credited to or debited from the Funds Account of the Participant. No amount shall be drawn under a Line of Credit or a System-Operating Cap in respect of a CNS Mark.

7.3.7 Settlement of CNS Obligations

Each CNS Obligation shall be Settled on its Value Date by a Trade between the Participant and CDS, effected by appropriate debits and credits to the Securities Account and Funds Account of CDS and of the Participant, subject to the same edits and restrictions as any other Trade of that Participant.

7.3.8 Partial Settlement and Delayed Settlement

(a) Effect of Partial or Delayed Settlement

CDS may delay the receipt of, or take partial receipt of, Securities that it is due to receive under the securities component of a CNS Obligation if it is unable to re-deliver all such Securities under the securities component of another of its CNS Obligations with another participant, and may delay the delivery of, or make partial delivery of, Securities that is due to deliver under the securities component of a CNS Obligation if it has not received the delivery of all such Securities under the securities component of another of its CNS Obligations with another participant. When a partial delivery of Securities is made by a participant or by CDS in Settlement of the securities component of its CNS Obligation, the payment component of that CNS Obligation shall be adjusted accordingly; when a partial payment is made by a participant or by CDS in Settlement of the payment component of its CNS Obligation, the securities component of that CNS Obligation shall be adjusted accordingly. If a CNS Obligation of a participant or of CDS is not Settled in full on its Value Date because any or all of the Securities due to be delivered in respect of the CNS Obligation are not delivered or because any or all of the payments due to be made in respect of the CNS Obligation are not made, then the Value Date of the outstanding CNS Obligation will be changed to the next Business Day, and will be netted with the like CNS Obligations of CDS and of that participant for the new Value Date. The revision and recalculation of the CNS Obligation will continue until it is Settled in full. To encourage the timely Settlement of CNS Obligations, CDS may impose a fee in respect of any delayed or partial delivery of the Securities to be delivered

pursuant to a CNS Obligation or in respect of any delayed or partial payment to be made pursuant to a CNS Obligation.

(b) Buy-In Procedure

If CDS has not delivered all of the Securities owing to a Participant under a CNS Obligation, then that Participant may request CDS to Settle the then-outstanding CNS Obligation on its then-current Value Date. If CDS receives such a request to Settle a partial or delayed delivery, CDS may require any Participant who has a CNS Obligation to deliver Securities of that issue to CDS on that Value Date to make such delivery. Upon such request by CDS, that Participant shall be required to Settle in full the forced-on CNS Obligation by the time prescribed and shall not be permitted to make a partial delivery or to delay delivery. If the Participant fails to Settle a forced-on CNS Obligation in full, then CDS may at any time execute a buy-in of the Participant's delayed or partial delivery. When CDS executes a buy-in, the forced-on CNS Obligation shall be terminated. CDS may appoint an agent to purchase the Securities required for the buy-in, and the purchase shall be made on such terms as CDS deems commercially reasonable taking into consideration the need of CDS to receive prompt delivery of such Securities. If CDS makes such a purchase, the purchase price of such Securities, and all costs and expenses incurred by CDS in connection with the purchase, shall be an amount immediately due and owing to CDS by the Participant who failed to Settle the forced-on CNS Obligation.

7.3.9 Re-Novation of CNS Obligation before Settlement

CDS may take the steps set out in this Rule 7.3.9 with respect to an outstanding CNS Obligation that has not yet been Settled (i) if the Security to be delivered becomes permanently ineligible for CNS, or (ii) if the Security to be delivered becomes temporarily ineligible for CNS in order to facilitate the processing of a re-organization in respect of that Security or in order to facilitate the processing of an entitlement by DTC or NSCC in respect of that Security. In such event, CDS may novate the outstanding CNS Obligation to a Trade between Participants. As a result, the outstanding CNS Obligation shall be deleted from CNS and the rights and obligations between CDS and the Participant under the deleted CNS Obligation shall be extinguished. To replace the deleted CNS Obligation, CDS shall create one or more Trades with a Trade-for-Trade mode of settlement indicator between CNS Participants who had, before the deletion, corresponding CNS Obligations. The Participants who are parties to the newly created Trade that replaces the deleted CNS Obligation may not have previously been parties to any Trade in the affected Security with one another. Upon the deletion of an outstanding CNS Obligation, any obligation to deliver Securities and any right to receive Securities, and any obligation to make payment and any right to receive payment, between CDS and the Participant arising from the deleted CNS Obligation, are extinguished and replaced by the rights and obligations of the Participants to deliver Securities and make payment arising from the newly created Trade, and CDS shall have no further obligation or right with respect to the deleted CNS Obligation.

7.3.10 Conversion of CNS Trade Before Processing

CDS may take the steps set out in this Rule 7.3.10 with respect to a Trade with a CNS mode of settlement indicator that has not yet been processed through CNS Function if the Security to be delivered becomes ineligible for CNS either permanently, or temporarily to facilitate the processing of an entitlement or re-organization in respect of that Security. In such event, CDS may change the mode of settlement indicator on the Trade to a Trade-for-Trade mode of settlement. As a result, the outstanding Trade shall be converted into a Trade with a Trade-for-Trade mode of settlement indicator to be Settled between the Participants who were the parties to the original Trade. When the Security later becomes eligible for CNS, a Trade-for-Trade mode of settlement indicator on any outstanding Trade in that Security (including a newly created Trade under Rule 7.3.9) may be changed to a CNS mode of settlement indicator, if the Trade is eligible for processing through the CNS Function.

7.3.11 Default after Settlement

Once a CNS Obligation has been Settled, the CNS Obligation shall no longer be distinguished from any other Trades Settled for the Participant. If the Participant is suspended after Settlement of CNS Obligation, CDS shall take steps with respect to that suspension without regard for the fact that the obligation in respect of which the Participant has defaulted included debits or credits arising from the Settlement of the CNS Obligation. Without limiting the generality of the foregoing, CDS may take the steps set out in Rule 9.2 to collect payment from any Surety and from the other Members of any Credit Ring of which the Defaulter is a Member, and the steps set out in Rule 9 generally.

7.3.12 Close-Out Process

(a) Actions by CDS

Upon the termination or suspension of a CNS Participant, CDS shall:

- (i) Settle CNS Obligations due on that Value Date with each Participant other than the Defaulter, but such Settlement may be delayed until after completion of the close-out process for the Defaulter in accordance with this Rule;
- (ii) terminate all outstanding CNS Obligations of that Defaulter;
- (iii) determine the close-out amount for each terminated CNS Obligation;
- (iv) determine the net termination value for all of CNS Obligations of that Defaulter, by netting or setting off all close-out amounts that are losses to CDS against all close-out amounts that are gains to CDS; and
- (v) take any steps under Rule 9.

CDS may decide not to take all or any such steps in respect of a suspended Participant, in which event the notice of suspension will indicate which steps are to be taken.

(b) Calculation of Close-Out Amounts

The close-out amount for each CNS Obligation shall be the amount determined by CDS in good faith to be its total loss or gain arising from the failure of that CNS Obligation, including any cost of funding. CDS may enter into a Trade that has the effect of replacing for CDS (to the extent feasible) the economic equivalent of the Defaulter's obligation pursuant to that CNS Obligation to deliver Securities for the corresponding payment or to receive Securities on making the corresponding payment. CDS may in its discretion determine that the replacement Trade shall be a buy/sell, a purchase/repurchase, a repo, a securities loan, or a Trade otherwise structured. If the replacement Trade is to be Settled by a Trade, that Trade may itself be processed in CNS. The cost or gain to CDS of such replacement Trade, including the Marks paid or received on the CNS Obligation resulting from the processing of the replacement Trade through CNS, shall be used to calculate the close-out amount of that replaced CNS Obligation. If CDS determines that it is not feasible to enter into a replacement trade, the loss or gain constituting the close-out amount may be determined by reference to quotations of relevant rates or prices from one or more leading dealers in the relevant market.

(c) Calculation of the Net Termination Value

CDS shall calculate the net termination value for all of the Defaulter's CNS Obligations terminated upon the suspension of the Participant, which shall be the net of all losses or gains arising from the close-out amount of all CNS Obligations. The net termination value shall be an amount that is immediately due and payable by the Defaulter to CDS.

(d) Release of Liability

Each CNS Participant releases and discharges CDS from any liability or claim arising from the exercise of the powers granted pursuant to this Rule 7.3, other than liabilities or claims arising from gross negligence or wilful default.

7.3.13 Withdrawal from CNS

A Participant may withdraw from CNS by giving notice to CDS of its intention to withdraw. CDS shall inform all of the other Participants making use of CNS that it has received a notice of intention to withdraw from that Participant, and shall give particulars of the withdrawal. The notice shall be effective as of the end of the tenth Business Day following the later of (i) the Business Day on which the Participant gives such notice or (ii) the Business Day on which the Participant, having given such notice, has no outstanding CNS Obligations and has paid the net amount owing by it in respect of CNS

7.4. PROCESSING OF SETTLEMENTS

7.4.1 Settlement Processes

A pending Trade or outstanding Central Counterparty Obligation is considered for Settlement on its Value Date. There are three Settlement processes: the Real Time TFT Settlement Process (the Real Time TFT Process), the Real Time Continuous Net Settlement Process, and the Combined Batch Net Settlement/Continuous Net Settlement Process (the Combined Batch/CNS Process).

7.4.2 Real Time TFT Process

The Real Time TFT Settlement Process:

- (a) is run throughout the time the system is operating;
- (b) processes Settlement of pending Trades that have a Trade-for-Trade mode of settlement indicator (including Pledges.);
- (c) does not novate or net newly reported Trades to create new Central Counterparty Obligations; and
- (d) Settles a Trade only if the entire Trade can be Settled except when such Trade is reported by a Third Party Clearing System as described in Rule 7.2.7

If a Trade does not pass the pre-settlement edits in its entirety, it is not partially Settled and remains a pending Trade that will be reconsidered for Settlement.

When the Real Time TFT Process effects the Settlement of a Trade, amounts are used under the System-Operating Cap and Lines of Credit (if required) at the same time that Securities are delivered pursuant to Rule 7.5.2 or Rule 7.5.4 and payment is made pursuant to Rule 7.5.5. All of the entries required for each Settlement are processed on a committed basis, with the result that either all of the entries (including all entries to Funds Accounts and Securities Accounts and all entries using amounts under System-Operating Caps and Lines of Credit in respect of negative Funds Account balances) required to complete that Settlement are made, or, if for any reason any of the entries cannot be made, then none of the entries are made and the Trade is not Settled.

7.4.3 Real Time Continuous Net Settlement Process

The Real Time Continuous Net Settlement Process:

- (a) is run continuously each day as a discrete process in accordance with the Procedures;
- (b) processes Settlement of outstanding Central Counterparty Obligations for CNS .;
- (c) does not usually novate or net newly reported Trades to create new Central Counterparty Obligations, but may be used by CDS in its discretion to novate and net newly reported Trades that have a CNS mode of settlement indicator in order to calculate new Central Counterparty Obligations, in which event it will also calculate and process the related Marks;
- (d) Settles an outstanding Central Counterparty Obligation either in its entirety or partially;
- (e) applies the pre-settlement system edits described in Rule 5.13 to the Securities and Funds Account balances resulting from the Settlement of each individual outstanding Central Counterparty Obligation.

When the Settlement of a Central Counterparty Obligation is effected by the Real Time Continuous Net Settlement Process, amounts are used under the System-Operating Cap and Lines of Credit at the same time that Securities are delivered pursuant to Rule 7.5.2 or Rule 7.5.4 and payment is made pursuant to Rule 7.5.5. All of the entries required for each Settlement processed are processed on a committed basis, with the result that either all of the entries (including all entries to Funds Accounts and Securities Accounts and all entries using amounts under System-Operating Caps and Lines of Credit in respect of negative Funds Account balances) required to complete that Settlement are made, or, if for any reason any of the entries cannot be made, then none of the entries are made and the Central Counterparty Obligation is not Settled.

7.4.4 Combined Batch/CNS Process

The Combined Batch Net Settlement/Continuous Net Settlement Process:

- (a) is run once each day as a discrete process before the Real Time TFT Process or the Real Time Continuous Net Settlement Process is run, and may be run at additional times if CDS considers such action desirable to optimize Service functionality;
- (b) processes Settlement of any pending Trade (other than a Pledge) or outstanding Central Counterparty Obligation;
- (c) novates and nets newly reported Trades that have a CNS mode of settlement indicator, to calculate new Central Counterparty Obligations;
- (d) calculates and processes Marks for Central Counterparty Obligations;

- (e) Settles an outstanding Central Counterparty Obligation either in its entirety or partially;
- (f) Settles a Trade only if the entire Trade can be Settled;
- (g) applies the pre-settlement system edits described in Rule 5.13 to the projected final net Securities and Funds Account balances resulting from the Settlement of all Trades and Central Counterparty Obligation in the batch, and not to the balances resulting from the Settlement of each individual Trade or Central Counterparty Obligation.

The Combined Batch/CNS Process Settles a pending Trade or outstanding Central Counterparty Obligations only if all of the resulting Account balances pass the pre-settlement edits. If not, the pending Trade is removed from the batch (and not considered for partial Settlement), and the outstanding Central Counterparty Obligation is considered for partial Settlement in accordance with Rule 7.4.6, until those remaining can be Settled within the limitations set by the pre-settlement edits. Trades removed from the batch remain pending Trades to be reconsidered for Settlement. After such removals, the Trades and Central Counterparty Obligations then remaining are Settled in a batch.

The entries for each batch are processed on a committed basis, with the result that either all of the entries (including all entries to Funds Accounts and Securities Accounts and all entries using amounts under System-Operating Caps and Lines of Credit in respect of negative Funds Account balances) required to complete those Settlements are made, so that all the Trades and Central Counterparty Obligations remaining in the batch are Settled, or, if for any reason the batch cannot be completed, none of the entries are made and no Trade or Central Counterparty Obligation is Settled by that batch. All entries required to effect all of the Settlements in a particular batch are made concurrently, with the result that all the Trades and Central Counterparty Obligations remaining in the batch are Settled simultaneously.

7.4.5 Account Entries Resulting from Batch Process

- (a) Funds Account Entries

For each Trade Settled by the Combined Batch/CNS Process that includes payment, an entry is made debiting the Funds Accounts maintained for the payor Participant and an entry is made crediting the Funds Accounts maintained for the payee Participant. For each Central Counterparty Obligation Settled by the Combined Batch/CNS Process that includes payment, an entry is made debiting the Funds Accounts maintained for the payor Participant (or CDS) and an entry is made crediting the Funds Accounts maintained for the payee Participant (or CDS). Since all of the debit and credit entries required to effect all of the Settlements in a particular batch are made simultaneously, no interim Funds Account balance can be calculated for each entry and only the Funds Account balance resulting from the Settlement of all such Trades and Central

Counterparty Obligations records funds owing between CDS and the Participant in accordance with Rule 8.1.1. Accordingly, only the resulting Funds Account balance (if negative) is used under the System-Operating Cap allocated to that Funds Account and the Lines of Credit established for that Ledger. Therefore, no individual entry debiting a Funds Account made in the batch is a forced entry as described in Rule 8.1.3, and the Settlements effected in the batch are made in compliance with Rule 2.4 and Rule 5.10.1.

(b) Securities Entries in Accounts

For each Trade Settled by the Combined Batch/CNS Process that includes the delivery of Securities, an entry is made debiting the Securities balance in an Account maintained for the delivering Participant and an entry is made crediting the Securities balance in an Account maintained for the receiving Participant. For each Central Counterparty Obligation Settled by the Combined Batch/CNS Process that includes the delivery of Securities, an entry is made debiting the Securities balance in an Account maintained for the delivering Participant (or CDS) and an entry is made crediting the Securities balance in an Account maintained for the receiving Participant (or CDS). For each class of Security in which Trade or Central Counterparty Obligations are Settled by batch processing, a single net Securities balance is calculated for each Account affected by the processing. Since all of the debt and credit entries required to effect all of the Settlements in a particular batch are made simultaneously, no interim Account balance is calculated for each entry and only the Account balances resulting from the Settlement of all such Trades and Central Counterparty Obligations record Securities held by CDS for the Participant in accordance with Rule 4.2.4.

(c) Completion of Trades

The debit and credit entries made in the batch to each Account to complete a Trade constitute the Settlement of that Trade by the delivery of Securities between the delivering Participant and the receiving Participant pursuant to Rule 7.5.2 or Rule 7.5.4 and the making of payment between the payee Participant and the payor Participant pursuant to Rule 7.5.5. The debit and credit entries made in the batch to each Account to complete a Central Counterparty Obligation constitute the Settlement of that Central Counterparty Obligation by the delivery of Securities between CDS and the delivering or receiving Participant (as the case may be) pursuant to Rule 7.5.2 and the making of payment between CDS and the payee or payor Participant (as the case may be) pursuant to Rule 7.5.5.

7.4.6 Processing of Settlement of Central Counterparty Obligations

When (i) an outstanding Central Counterparty Obligation is considered for Settlement in any Settlement process, (ii) the Settlement of the entire Central Counterparty Obligation would not pass the pre-settlement edit, but (iii) a partial Settlement of the Central Counterparty Obligation would pass the pre-settlement edits, then the Central Counterparty Obligation may be partially Settled, by the delivery of only some of the Securities required and the making of a corresponding partial payment. As a result of such a partial Settlement of the Central Counterparty Obligation, a revised Central Counterparty Obligation will remain outstanding, to be reconsidered for Settlement.

7.5. SETTLEMENT

7.5.1 Settlement Process

As a result of the processing described in Rule 7.4, any or all of the following may occur:

- (a) pending Trades are Settled by the delivery of Securities and payment between Participants as described in this Rule 7.5;
- (b) outstanding Central Counterparty Obligations are Settled by the delivery of securities and payment between CDS and a Participant as described in this Rule 7.5;
- (c) Securities Account balances and Funds Account balances are revised by the debits and credits made in respect of such Settlements;
- (d) amounts are used under Lines of Credit and System-Operating Caps;
- (e) amounts used under Lines of Credit and System-Operating Caps are repaid;
- (f) Trades that are not Settled remain pending to be reconsidered for Settlement; and
- (g) Central Counterparty Obligations that are not Settled, or are partially Settled, remain outstanding to be reconsidered for Settlement.

All such entries are made simultaneously.

7.5.2 Book Delivery of Securities

A transfer of a Security by book delivery is effected by the making of appropriate entries in the Ledgers maintained by CDS debiting and crediting the Accounts of the delivering Participant and the receiving Participant respectively in the quantity of the Security relating to that Trade (or debiting and crediting the Accounts of CDS and the Participant, relating to that Central Counterparty Obligation). The making of such entries effects final and irrevocable delivery of the Security between the Participants with respect to that Trade (or between CDS and the Participant, with respect to that Central Counterparty Obligation).

7.5.3 Attornment

The making of an entry by CDS in the Ledgers maintained by CDS to effect the delivery of a Security constitutes the attornment of CDS that the Security so delivered is held for the receiving Participant, and such Security is thereby constructively delivered to the receiving Participant. The making of an entry by CDS in a Securities Account maintained by CDS for a Participant to record a quantity of a Security constitutes the

attornment of CDS that the quantity of that Security so recorded is held for the Participant.

7.5.4 Pledge

A Pledge of a Security is effected by the making of appropriate entries in the Ledgers maintained by CDS debiting the Securities Account of the pledgor Participant and crediting the Collateral Account of the pledgee Participant in the quantity of the Securities relating to that Pledge. The Securities credit balance in the Collateral Account of a Participant records the quantity of each Security held by CDS for that Participant. A Pledge of funds is effected by the making of appropriate entries in the Ledgers maintained by CDS debiting the Funds Account of the pledgor Participant and crediting the Collateral Account of the pledgee Participant in the amount of funds relating to that Trade. The funds credit balance in the Collateral Account of a Participant, which records an amount owing by CDS to that Participant, is a financial asset held by CDS for that Participant and subject to its control. The Participant has control and possession of the Securities and financial assets credited to that Participant's Collateral Accounts for all purposes, including the perfection of a security interest. As between the pledgee Participant and the pledgor Participant, and without derogating from the grant of the Surety Security Interest and the Category Credit Ring Security Interests, Pledged Securities and Pledged funds credited to the pledgee Participant's Collateral Account can be dealt with solely in accordance with the instructions of the pledgee Participant, without reference to or consent by the pledgor Participant or to any person claiming through it or as its successor or representative. A Pledge of funds is subject to any repayment terms of any agreement between the Participants, and unless otherwise agreed the pledgor Participant has no right to the repayment of the Pledged funds except upon discharge of the debt or other obligation for which the funds were Pledged. CDS is under no obligation to verify the terms of any Pledge or compliance with the terms thereof by any Participant. So long as the Pledged Securities or funds remain in the Collateral Account of the pledgee Participant to whom they are Pledged, CDS also reflects the delivery of such Securities or funds in the Pledge Account for the pledgor Participant who made the Pledge. The record of the Pledged Securities or Pledged funds shall be deleted from the Pledge Account of the pledgor Participant when the pledgee Participant to whom the Securities or funds were Pledged directs that the Pledged Securities or funds be transferred from its Collateral Account. On Payment Exchange, Pledged funds are transferred from the pledgee's Collateral Account to its Funds Account. When Pledged funds are transferred from the pledgee's Collateral Account to its Funds Account or are transferred at its instructions to the Funds Account of the pledgor Participant, the Pledged funds cease to be a financial asset.

7.5.5 Payment

Payment between Participants, or for a Central Counterparty Obligation between CDS and the Participant, is effected by the making of entries debiting the Funds Account or Collateral Account maintained for the payor Participant or CDS and crediting the Funds Account or Collateral Account maintained for the payee Participant or CDS. The making of such entries effects final and irrevocable payment between the Participants, or final

and irrevocable Settlement of the Central Counterparty Obligation between the Participant and CDS. Such entries shall be made by CDS to effect a Funds Transfer, to effect a Pledge, or to Settle a Trade or Central Counterparty Obligation (and if a delivery of Securities is also involved in that Settlement, the payment entries shall be made simultaneously with the making of the entries in the Ledgers maintained by CDS to effect the delivery).

7.5.6 Novation Upon Settlement

Upon the making of the entries by CDS to effect delivery of the Securities, any obligation between the Participants arising from the Trade, or between CDS and the Participant arising from the Central Counterparty Obligation, to deliver Securities is extinguished and replaced by the obligation of CDS pursuant to Rule 4.2.4 to deliver to the Participant the Securities shown in the Participant's Securities Account. Upon the making of the entries by CDS to effect payment, any obligation between the Participants arising from the Trade, or between CDS and the Participant arising from the Central Counterparty Obligation, to make such payment is extinguished and replaced by the obligation to make and the right to receive payment on Payment Exchange between the Participants and CDS as recorded in the Participants' Funds Accounts.

7.5.7 Finality of Settlement

The making of entries in the Ledgers maintained by CDS to effect a delivery of Securities or a payment effects final and irrevocable delivery or payment to and from the Participants in whose Ledgers such entries are made. If the entries are made to Settle a Central Counterparty Obligation, such entries effect final and irrevocable delivery or payment between CDS and the Participant. The finality of the Settlement of a Central Counterparty Obligation does not affect the separate obligation to make payment on Payment Exchange between CDS and the Participant that is evidenced by any Funds Account balance in a Ledger of a Participant.

9.2. GENERAL DESCRIPTION OF PROCESS ON SUSPENSION

9.2.1 Restriction of System Functionality

Immediately upon the suspension of a Participant, CDS shall restrict the right of the Participant to use all system functionality for all Services. Such restriction may be lifted in whole or in part by CDS in its discretion as may be required to complete an orderly discharge of the Participant's obligations in accordance with this Rule 9.

9.2.2 Central Counterparty Functions

If a Participant using any Central Counterparty Function is suspended, then the following steps shall be taken in addition to the other steps described in this Rule 9.

(a) Marks

Notwithstanding the suspension of the Participant, Marks shall continue to be calculated and owed in respect of each of its outstanding Central Counterparty Obligations.

(b) Unprocessed Trades

Any of its Trades that have not yet been processed through CNS shall be ineligible for the CNS Function.

9.2.3 Retention of Positive Balances upon Suspension

If a suspended Participant has a positive balance denominated in any currency credited to any Funds Account or Restricted Collateral Account in any Ledger, then CDS shall not pay such positive balance to the suspended Participant. CDS shall exercise its right of retention in respect of any such positive balance. CDS may debit the positive balance from the suspended Participant's Ledger and credit it to a Collateral Administration Ledger of CDS.

9.2.4 Effect of Suspension on Book Entry Payment Method

When a Participant is suspended, the attribution of amounts pursuant to the Book Entry Payment Method shall be reversed in accordance with Rule 8.4 and any payment made by a Qualified Banker on behalf of a suspended Customer shall be treated as set out in Rule 8.4.14.

9.2.5 Payment Exchange

Immediately upon the suspension of a Participant, CDS shall take the steps in accordance with Rule 5 necessary to ensure that Payment Exchange is completed for that day, including:

9.4.12 Credit Ring Obligation for Other Defaulters

A Withdrawing CCP Participant continues to be subject to its Fund Credit Ring obligations pursuant to Rule 5.7, as modified by this Rule 9.4, with respect to the obligation of any Defaulter who uses the CCP Function from which it is withdrawing and who is suspended on or before the day that is fifteen Business Days after the day on which the Withdrawing Participant exercised the CCP Withdrawal Option. The total amount paid by the Withdrawing CCP Participant with respect to the obligation of all Defaulters who are suspended after the suspension of the Suspended CCP Participant shall not exceed the amount of its Final Contribution less any amount paid by the Withdrawing CCP Participant in respect of its Fund Credit Ring obligations for the Suspended CCP Participant. In respect of such Defaulters who use the CNS Function.:

- (a) the proportionate share of the Withdrawing CCP Participant and of each other Fund Member shall be based on their respective Contributions to the Fund at the time of the suspension (which for the Withdrawing CCP Participant shall be considered to be its Post-Withdrawal Contribution), provided that if the then unapplied amount of the Withdrawing CCP Participant's Final Contribution is insufficient to pay its proportionate share in full, the proportionate shares of each other Fund Member shall be increased accordingly; and
- (b) the Final Contribution of the Withdrawing CCP Participant shall be applied first in respect of the Suspended CCP Participant and then any excess shall be applied in respect of the first successive Defaulter and any excess remaining thereafter shall be applied in respect of any other Defaulter in the order in which such Defaulters are suspended.

9.4.13 Refund of Final Contribution

A Withdrawing CCP Participant shall not be entitled to any refund of its Final Contribution until the later of (i) the date on which it has Settled all of its Central Counterparty Obligations arising from the CCP Function from which it is withdrawing

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and (ii) the date on which CDS has determined its Fund Credit Ring obligations with respect to the Suspended CCP Participant and all Defaulters who used that CCP Function and the Withdrawing CCP Participant has paid such obligations.

9.4.14 Discretion re Selective Processing in CNS

(a) Discretion re Selective Processing in CNS

A Withdrawing CCP Participant shall Settle all of its outstanding Central Counterparty Obligations for the CCP Function from which it is withdrawing as soon as possible after it has exercised the CCP Withdrawal Option. Notwithstanding the restriction of the Withdrawing CCP Participant's right to use the CCP Function, CDS may at the request of the Withdrawing Participant permit particular eligible Transactions of that Withdrawing CCP Participant to be processed through CNS, provided that CDS determines such processing is likely to reduce the Withdrawing CCP Participant's outstanding Central Counterparty Obligations for that CCP Function. The selection of Transactions to be so processed shall be made on the basis of criteria set out in the Procedures.

(b) Exercise of Discretion

In exercising its discretion under this Rule 9.4.14, CDS shall take reasonable care in what it, in good faith, considers to be in the best interests of CDS and of all Participants. CDS shall not be liable to any Participant including the Withdrawing CCP Participant for any loss, damage, cost, expense, liability or claim arising from the exercise of its discretion to select particular eligible Transactions of a Withdrawing CCP Participant for processing through CNS.

9.4.15 Reinstatement

A Participant who has exercised the CCP Withdrawal Option may at any time be reinstated by the Board of Directors upon notice to CDS of the Participant's request for reinstatement and on conditions determined by the Board, provided the Participant is then eligible to use the CCP Function, pays any reinstatement fee determined by the Board and meets any other conditions set by the Board. The Board of Directors may approve or reject a request for reinstatement in its discretion. CDS may require that a Participant's application for reinstatement be deferred for a minimum period of time following its withdrawal from a CCP Function.

- (a) shall confirm or reject the Deposit and Withdrawal of Securities and shall provide a Closing Balance Report to CDS, with respect to all CDSX eligible Securities for which it is the Transfer Agent;
- (b) may act as a Depository Agent (including a CDSX Depository Agent) or Entitlements Processor;
- (c) 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 or as permitted when classified under another limited purpose Participant category;
- (d) may not make Lines of Credit available to other Participants;
- (e) may not use Lines of Credit made available by an Extender of Credit or by the Active Federated Participant;
- (f) may not use the CNS Function;
- (g) may not act as the ISIN Activator or Securities Validator for a Security; and
- (h) may not act as a Custodian.

11.2.5 Exclusion from Credit Ring and Debit Ring

A TA Participant is not a member of a Credit Ring or of a Debit Ring.

11.2.6 Representation of TA Participant

A TA Participant represents and warrants to CDS and to all other Participants that its actions with respect to each eligible Security pursuant to this Rule are within its capacity and within the scope of the authorization received by it from the Issuer of the eligible Security. Each TA Participant shall be liable as principal for all of its obligations pursuant to this Rule, including obligations arising from representations and warranties made by it, whether it is acting on its own behalf or on behalf of an Issuer. The foregoing representation and warranty by each TA Participant, and its assumption of obligations under this Rule 11 shall not limit any liability that may attach to the Issuer of any eligible Security or to the TA Participant as the Transfer Agent of the Issuer under general principles of law or by operation of any applicable statute or regulation. A TA Participant is not required to perform any obligation to CDS if such performance would conflict with an order of a court or Regulatory Body having jurisdiction over the TA Participant.

11.2.7 Limitation of Responsibility of TA Participant

A TA Participant shall have no discretion with respect to the registration, holding or transfer of Securities Deposited into the Depository Service and shall act only in accordance with the directions of CDS. In accordance with the directions of CDS, such

