

CDS Clearing and Depository Services Inc. (CDS[®])
MATERIAL AMENDMENTS TO CDS RULES RELATED TO
TIMING OF NOVATION
REQUEST FOR COMMENTS

A. BACKGROUND

As the Central Counterparty (“CCP”) for its Continuous Net Settlement (“CNS”) service, CDS interposes itself between the counterparties to the original trades the morning of value date. CDS becomes the buyer to every seller and the seller to every buyer, creating a CNS Obligation.¹ This process, known as novation², results in CDS guaranteeing the settlement of CNS trades that have reached value date.

Novation also effectively transfers settlement risks from the original counterparties to CDS. These settlement risks have two dimensions: payment risk, which is the risk of loss on deliveries or payments from the defaulting Participant, and replacement cost risk, which is the loss from replacing open contracts with the defaulting Participant. To protect CDS and its Participants in the event of a Participant default, CDS has established risk controls and a collateralized credit ring (called the CNS Participant Fund) in the CNS service.

CDS currently becomes the CCP for trades in CNS when CDS novates the original trades (coincident with the netting of those trades) during the overnight batch processing cycle the morning of trade date plus three business days (“T+3/V”). During the time between trade execution (“T”) and novation, CDS’s Participants are exposed to the bilateral risk of default of the Participant on the other side of the trade.

B. NATURE, PURPOSE & DESCRIPTION OF THE PROPOSED RULE AMENDMENTS

CDS proposes to advance novation from T+3/Value Date (as is the case today) to value-date minus one business day (“V-1”) with the net effect that novation will advance to T+2 from T+3. CDS views this proposal as key to enhancing CDS’s role as CCP, and critical to the reduction of systemic settlement risk within the financial system.

The proposed amendments to the CDS Participant Rules (“Amendments”) facilitate the advancement of the timing of novation by as much as two business days – from T+3 to T+1. Specifically, the Amendments allow CDS to become CCP for trades designated for CNS earlier than on the morning of value date, as is currently the case.

Technical details are more appropriately described in the notice to be entitled *Technical Amendments to CDS Procedures Related to the Timing of Novation*, which will be submitted following the publication of this Notice.

C. DESCRIPTION OF THE PROPOSED RULE AMENDMENTS

The proposed Amendments permit CDS to novate trades on V-1 rather than on value date (which is currently T+3) and makes CDS the CCP to Participant CNS obligations prior to the morning of value date.

While the immediate consequence of the proposed amendments will be to advance the timing of novation to V-1, CDS proposes to amend the rules to contemplate the T+2 industry initiative (a North America-wide initiative) to advance the timing of settlement to T+2 from the current T+3 and, in future,

¹ “CNS 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 CNS Function.

² The process of novation extinguishes the original contract between the buyer and seller and replaces the original transaction with two new contracts, one between the central counterparty (CCP) and the buyer, and the other between the CCP and the seller.

accommodating T+1 novation concurrent with the industry's adoption of T+2 settlement. The proposed amendments not only ensure that novation is advanced from T+3 to T+2 (while settlement remains at T+3), but will have the further benefit of advancing novation from T+2 to T+1 coincident with the adoption of T+2 settlement. The proposed amendments ensure that CDS's risk management processes, including mark-to-market and collateral requirement calculations, remain effective:

Rule 7.1.5 – *Marks* – Amended to account for the fact that transactions will have to be identified as having either a future value date or a current value date (as is currently the case).

Rule 7.3.1 – *Overview of CNS Function* – Amended to ensure that CDS may novate eligible trades in advance of value date.

Rule 7.3.4 – *Netting of Novated Trades* – Amended to reflect that novated trades are netted either with like trades with a current or earlier value date, or with like trades with a future value date.

Rule 7.3.6 – *Marks* – Amended to ensure that daily mark calculations include outstanding, and CNS Obligations with a future value date.

Rule 7.3.9 – *Re-Novation of CNS Obligation before Settlement* – Amended to ensure that CDS retains the ability to re-novate CNS Obligations in the event of a re-organization of a security prior to settlement.

Rule 7.3.12 – *Close-Out Process* – Amended to ensure that CDS retains the ability to closeout CNS Obligations with a future value date, and may delete trades in accordance with CDS's trade management authority under Rule 3.3.9.

Rules 6.6.13 – *Conversion of CNS Obligations for Entitlement or Re-Organization*, 6.8.4 – *Reorganization of Security under CNS Obligation*, and 7.3.13 – *Withdrawal from CNS*, have been amended to ensure that the Rules, respectively, refer to CNS Obligations, rather than 'outstanding' CNS Obligations.

D. IMPACT OF THE PROPOSED CDS RULE AMENDMENTS

a) Impact on CDS of V-1 Novation

1. Netting and Mark-to-market Processes

V-1 novation of CNS trades results in CDS becoming the CCP earlier in the trade lifecycle and results in the creation of two categories of CNS positions in CDSX. They are:

- A. *Value-dated CNS position* – On V-1, CNS trades are novated and netted. The Value-dated CNS positions represent CNS positions that have not reached value date.
- B. *Outstanding CNS position* – The portion of the Value-dated CNS position that has reached value date. The position remains an Outstanding CNS position if it does not settle.

After each netting cycle, marks are calculated on the following and applied to the Participants' ledgers:

- A. All new trades that have been included in the netting process
- B. Value-dated CNS positions
- C. Outstanding CNS positions, including those positions that remain outstanding from prior day, and Value-dated CNS positions that have now reached value date and are eligible for settlement

2. Collateral Requirement (Outstanding position component and Mark-to-market component)

Advancing novation to V-1, but continuing to settle trades on the value date of T+3, is expected to result in an increase in the total value of CNS positions and an associated increase in the total *CNS Participant Fund* for each Participant; further, given the greater number of novated positions awaiting settlement in a V-1 novation environment, CDS expects that the *CNS Default Fund* will also increase the *CNS Default Fund* collateral requirements for each Participant.

The expected increase in the number of trades and positions being marked-to-market will affect Participants' daily mark-to-market, their corresponding daily cash flows, and may have an impact on the mark-to-market component of the *CNS Participant Fund*.

In a V-1 novation environment, CDS must consider both the Value-dated CNS positions and Outstanding CNS positions to calculate the Participant's collateral requirement.

The sum of the netted portfolio of Outstanding CNS positions remaining after the CNS/BNS cycle and the Value-dated CNS positions will be introduced into CDS's *CNS Participant Fund* collateral requirement calculation engine to determine the outstanding component of the collateral requirement. This process will ensure that the portfolio effects of all diversification-eligible positions will be taken into consideration.

****Note:** Value-dated CNS positions are *not* currently included in the calculation of the *CNS Participant Fund* collateral requirement in the T+3 novation environment.**

In order to determine the total *CNS Participant Fund* collateral requirement for a Participant in the V-1 novation environment, CDS considers the total of all marks applied to each Participant's ledger. In the V-1 novation environment, the total mark includes marks on all netted trades (not only T+3) and CNS positions, both value-dated and outstanding.

b) Impact on CDS CNS Participants of V-1 Novation

At a high level, the proposed Amendments will be of benefit to Participants by applying the risk management processes afforded by the imposition of the CCP functions, and providing the benefit of multi-lateral netting in the trade lifecycle.

More specifically, CDS Participants will be impacted as follows:

1. Daily Mark

A Participant's daily mark will be comprised of the marks related to:

- New trades that have been netted
- CNS positions that remain outstanding from prior day
- CNS positions that have now reached value date and are eligible for settlement
- CNS positions with future value dates

2. Participant Merge

As part of the Participant merge process, Outstanding CNS positions and Value-dated CNS positions will be merged from the old Participant to the new Participant.

3. Allotment Process

The allotment process will consider the value date on the Value-dated CNS positions when creating the TFT non-exchange trades. The value date on the TFT non-exchange trade will equal the value date on the Value-dated CNS position being allotted.

The value date on the TFT non-exchange trade will continue to be equal to the current business date for Outstanding CNS positions that are allotted.

4. *Entitlement Process*

Value-dated CNS positions will be considered in entitlement processing depending on the event type.

D.1 Competition

The Amendments will apply to all CDS Participants who currently are, or may choose to become Participants in the CNS Service. From a fair access perspective, no CDS Participant will be disadvantaged or otherwise prejudiced with the introduction of these changes.

D.2 Risks and Compliance Costs

Amendments related to the timing of novation will result in changes to CDS's Risk Model and Procedures. CDS does not foresee risks or compliance costs other than those specifically detailed in this Notice and Request for Comments accruing to CDS Participants or other stakeholders.

D.3 Comparison to International Standards

The proposed Amendments are consistent with IOSCO's Committee on Payments and Market Infrastructures Principles for Financial Market Infrastructures ("PFMIs") and with the Recommendations for Securities Settlements Systems included therein.

V-1 novation is consistent with PFMIs 1, 20, and 21, and their associated key considerations and explanatory notes.

E. DESCRIPTION OF THE RULE DRAFTING PROCESS

E.1 Development Context

CDS actively engaged in internal and external discussion in determining available options and the appropriate course of action. CDS also prepared documents describing the proposed Amendments and their impacts which were tabled at the Risk Advisory Committee ("RAC"), a CDS Participant committee that meets monthly.

E.2 Rule Drafting Process

The Amendments were drafted by CDS's Risk Management group, and were subsequently submitted for consultation to the Legal Drafting Group ("LDG") on January 20th, 2016, with no contrary views expressed. The LDG comments on the drafting of proposed Amendments to the CDS Participant Rules, and can suggest further revisions. The LDG's membership includes representatives from a cross-section of the CDS Participant community and meets on an ad hoc basis. On May 5th and 6th, 2016, the proposed Amendments were submitted to CDS's Risk Management and Audit Committee ("RMAC") and CDS's Board of Directors, respectively, with a recommendation that they be approved.

E.3 Issues Considered

Consideration was given to the operational impacts that the enhancements might create for CDS Participants as outlined in Section D of this Notice.

E.4 Consultation

This Amendment was initiated by CDS. CDS received input from the RAC on the concept and methodology underlying the proposed Amendments, while the LDG commented on its legal drafting. The SDRC is expected to comment on the operational aspects of the proposed Amendment to CDS's

Procedures as they are more specifically described in the “Notice and Request for Comment - Technical Amendments to CDS Procedures relating to Timing of Novation”, which will be submitted for publication and public comment following the publication of the present Notice.

CDS’s Customer Service account managers will provide continuous communication and status updates of all proposed changes to clients, as well as soliciting input on those changes.

CDS facilitates consultation through a variety of means, including regularly scheduled SDRC subcommittee meetings and monthly meetings with service bureaus to discuss potential development impacts to them. As a courtesy, development initiatives are presented to the Investment Industry Regulatory Organization of Canada’s (“IIROC”) Financial Administrators Section (“FAS”) working group.

E.5 Alternatives Considered

In parallel with CDS’s due diligence in respect of moving to V-1 novation, CDS also considered advancing novation to T+1. Impact analyses at an aggregate level were presented to CNS Participants through the CDS’s Participant Risk Advisory Committee.

Subsequent to consultations with CNS Participants and other stakeholders, the option of advancing the timing of novation to T+1 was determined to have a material impact on CNS Participants and was discarded for purposes of the present proposal.

E.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 British Columbia Securities Commission pursuant to Section 24(d) of the British Columbia Securities Act and by the Autorité des marchés financiers (“AMF”) pursuant to section 169 of the Québec Securities Act. In addition CDS is deemed to be the clearing house for CDSX®, a clearing and settlement system designated by the Bank of Canada pursuant to section 4 of the Payment Clearing and Settlement Act. The Ontario Securities Commission, the British Columbia Securities Commission, the Autorité des marchés financiers and the Bank of Canada will hereafter be collectively referred to as the “Recognizing Regulators”.

The amendments to CDS Participant Rules are expected to become effective upon implementation of systems changes and subsequent to approval for the proposed Amendments from the Recognizing Regulators following public notice and comment.

A dry-run exercise (involving Participants and their service bureaus) will be conducted prior to the production implementation.

F. TECHNOLOGICAL SYSTEM CHANGES

The proposed rule Amendment will require changes to such systems for CDS, CDS Participants, or other market Participants.

CDS

Considerable system enhancements are required within the CDSX CNS service to support V-1 Novation, including:

- Creation of new Value-dated CNS positions for netted trades
- Updates to trade extraction, netting and marking processes
- Inclusion of Value-dated CNS positions in collateral requirement calculation
- Updates to CNS allotment and entitlement conversion

- Changes to existing CNS screens, reports, outbound files and messages to include value-dated positions
- Creation of a new CDSX03N interlink message to report updates to Value-dated CNS positions
- Creation of a new CNS Value-dated position update report
- Creation of a new beginning-of-day CNS activity file
- Changes to Participant merge to include Value-dated positions
- Removal of 3:00 am and 1:00 pm netting cycle; only one cycle will run at 10:30pm

CDS Participants and Service Bureaus

- CDS Participants and/or their service bureaus will need to analyze the impact, to their systems, of both the process of netting on V-1 and of the creation of Value-dated CNS positions, and may be required to make consequential changes.
- CDS Participants may also be required to make changes in order to receive and process the new interlink message and Beginning-of-Day CNS activity file and changes to the existing End-of-Day CNS activity and position files.
- Participants and service bureaus have been made aware of these changes and are currently analyzing the impact to their systems.
- CDS Participants may also be impacted by changes to existing CNS Position screens and reports.

Exchanges and Alternative Trading Systems

CDS does not anticipate any impacts on Exchanges and Alternative Trading Systems as a result of the proposed Amendments and the movement of timing of novation from T+3 to V-1.

G. COMPARISON TO OTHER CLEARING AGENCIES

US (NSCC)

- NSCC's trade guarantee will attach to CNS transactions that reach midnight of T+1. (<http://www.dtcc.com/clearing-services/equities-clearing-services/cns>)

ASX (Australia)

- For cash equities trades, novation occurs with effect from the matching of the trade on the market. In the case of derivatives trades, novation takes place no later than the evening of the day of the trade, when trade details are allocated to participants' accounts. Following novation, clearing participants receive confirmation messages regarding the trades that have been novated, and on the next day (T+1) receive notification of their net obligations to ASX Clear for the previous day's trades. (https://www.bis.org/cpmi/publ/d97_au.pdf)
- Equities obligations are settled on a T+3 basis.

BM&F BOVESPA (Brazil)

- All trades carried out through BM&F BOVESPA's trading systems are submitted to the system for settlement as soon as they are executed, which assures a high degree of straight through processing. The clearing house effects novation of each contract in real time, immediately after capturing the transaction from the trading system, at which time BM&F BOVESPA becomes the central counterparty for those transactions. (https://www.bis.org/cpmi/publ/d97_br.pdf)

LCH.Clearnet (LCH.Clearnet clears equity-based trades that are executed on the London Stock Exchange (LSE), SIX Swiss Exchange, BATS Chi-X Europe, NYSE Euronext, Bourse de Luxembourg and Equiduct

- LCH novates trades as they are received by its systems.
- All transactions that are submitted to LCH.Clearnet SA are registered on a real time basis in its Clearing System in the name of the clearing member. Upon registration novation occurs. (<http://www.lchclearnet.com/asset-classes/equities/galaxy/how-it-works?inheritRedirect=true>)
- The Cash Clearing System is open for the registration of trades between 9:00am CET to 5:40 pm CET

H. PUBLIC INTEREST ASSESSMENT

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

I. 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:

Legal Department
Attn: Tony Hoffmann, Legal Counsel
CDS Clearing and Depository Services Inc.
85 Richmond Street West
Toronto, Ontario M5H 2C9
Fax: 416-365-3768 ; E-mail: rules@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
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CDS will make available to the public, upon request, all comments received during the comment period.

I. PROPOSED CDS AMENDMENTS

Appendix "A" contains text of current CDS Participant Rules marked to reflect proposed amendments as well as text of these rules reflecting the adoption of the proposed amendments.

**APPENDIX “A”
PROPOSED CDS RULE AMENDMENTS**

Text of CDS Participant Rules marked to reflect proposed amendments	Text CDS Participant Rules reflecting the adoption of proposed amendments
[marked text of rules]	[clean text]
<p>6.6.13 Conversion of CNS Obligations for Entitlement or Re-Organization</p> <p>If an entitlement or re-organization is processed in respect of the Security to be delivered under a CNS Obligation, then CDS may convert the outstanding CNS Obligation as set out in Rule 7.3.10 in order to process an entitlement or re-organization.</p> <p>...</p>	<p>6.6.13 Conversion of CNS Obligations for Entitlement or Re-Organization</p> <p>If an entitlement or re-organization is processed in respect of the Security to be delivered under a CNS Obligation, then CDS may convert the CNS Obligation as set out in Rule 7.3.10 in order to process an entitlement or re-organization.</p> <p>...</p>
<p>6.8.4 Reorganization of Security under CNS Obligation</p> <p>If a re-organization is processed in respect of a Security to be delivered under an an outstanding CNS Obligation, then in accordance with Rule 7.3.9 CDS may novate each such outstanding Central Counterparty Obligation to a Trade between Participants and may change the mode of settlement indicator on a Trade that has not yet been processed through the CNS Function, and then proceed to process the re-organization as provided in this Rule 6.8.</p> <p>...</p>	<p>6.8.4 Reorganization of Security under CNS Obligation</p> <p>If a re-organization is processed in respect of a Security to be delivered under a CNS Obligation, then in accordance with Rule 7.3.9 CDS may novate each such Central Counterparty Obligation to a Trade between Participants and may change the mode of settlement indicator on a Trade that has not yet been processed through the CNS Function, and then proceed to process the re-organization as provided in this Rule 6.8.</p> <p>...</p>
<p>7.1.5 Marks</p> <p>A Mark is an amount to be paid by CDS to a Participant, or to CDS by a Participant, in respect of an an outstanding Central Counterparty Obligation. A Mark is calculated for each Participant's outstanding Central Counterparty Obligations <u>identified as having a current or future Value Date and such Marks are of a Participant, and is</u> an obligation of the Participant to CDS or of CDS to the Participant, notwithstanding the suspension, termination or withdrawal of the Participant.</p> <p>...</p>	<p>7.1.5 Marks</p> <p>A Mark is an amount to be paid by CDS to a Participant, or to CDS by a Participant, in respect of a Central Counterparty Obligation. A Mark is calculated for each Participant's Central Counterparty Obligations identified as having a current or future Value Date and such Marks are an obligation of the Participant to CDS or of CDS to the Participant, notwithstanding the suspension, termination or withdrawal of the Participant.</p> <p>...</p>

Text of CDS Participant Rules marked to reflect proposed amendments	Text CDS Participant Rules reflecting the adoption of proposed amendments
<p>7.3 CONTINUOUS NET SETTLEMENT FUNCTION</p> <p>7.3.1 Overview of CNS Function</p> <p>The Continuous Net Settlement Function or CNS is a Function to net eligible Trades. CNS calculates CNS Obligations owing₁ from time to time between a Participant and CDS₁ by novating₁ 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.</p> <p>7.3.4 Netting of Novated Trades</p> <p>Each time a Trade between Participants is processed in CNS, the novated obligations and rights between each Participant and CDS are <u>either: (i) netted with their like novated obligations and rights in order to calculate the single CNS Obligation with that a current or earlier Value Date, for that issue of Securities₁ and in that currency then-outstanding between that Participant and CDS; or (ii) netted with their like novated obligations and rights in order to calculate the single CNS Obligation with a future Value Date, for that issue of Securities, and in that currency then-outstanding between that Participant and CDS. Netted single CNS Obligations with a current Value Date are eligible to Settle pursuant to Rule 7.3.7.</u></p> <p>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</p>	<p>7.3 CONTINUOUS NET SETTLEMENT FUNCTION</p> <p>7.3.1 Overview of CNS Function</p> <p>The Continuous Net Settlement Function or CNS is a Function to net eligible Trades. CNS calculates CNS Obligations owing₁ from time to time between a Participant and CDS₁ by novating 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.</p> <p>7.3.4 Netting of Novated Trades</p> <p>Each time a Trade between Participants is processed in CNS, the novated obligations and rights between each Participant and CDS are either: (i) netted with their like novated obligations and rights in order to calculate the single CNS Obligation with a current or earlier Value Date, for that issue of Securities, and in that currency then-outstanding between that Participant and CDS; or (ii) netted with their like novated obligations and rights in order to calculate the single CNS Obligation with a future Value Date, for that issue of Securities, and in that currency then-outstanding between that Participant and CDS. Netted single CNS Obligations with a current Value Date are eligible to Settle pursuant to Rule 7.3.7.</p> <p>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</p>

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<p>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 <i>vice versa</i>. 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.</p> <p>...</p>	<p>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 <i>vice versa</i>. 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.</p> <p>...</p>
<p>7.3.6 Marks</p>	<p>7.3.6 Marks</p>
<p>a) Daily Mark</p>	<p>a) Daily Mark</p>
<p>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 a Participant's CNS Obligations, <u>which daily Mark shall take account of both outstanding CNS obligations and those with a future Value Date.</u></p>	<p>CDS shall calculate, in accordance with the Procedures, the daily Mark in respect of a Participant's CNS Obligations, which daily Mark shall take account of both outstanding CNS obligations and those with a future Value Date.</p>
<p>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 <u>and includes Marks calculated on Trades netted on that Business Day.</u> 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.</p> <p>...</p>	<p>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 and includes Marks calculated on Trades netted on that Business Day. 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.</p> <p>...</p>
<p>7.3.9 Re-Novation of CNS Obligation before Settlement</p>	<p>7.3.9 Re-Novation of CNS Obligation before Settlement</p>

Text of CDS Participant Rules marked to reflect proposed amendments	Text CDS Participant Rules reflecting the adoption of proposed amendments
<p>CDS may take the steps set out in this Rule 7.3.9 <u>in the event that a re-organization that is processed in respect of a Security to be delivered under a CNS Obligation pursuant to Rule 6.8.4, or</u> 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.</p> <p>...</p> <p>7.3.12 Close-Out Process</p> <p>a) Actions by CDS</p>	<p>CDS may take the steps set out in this Rule 0 in the event that a re-organization that is processed in respect of a Security to be delivered under a CNS Obligation pursuant to Rule 6.8.4, or with respect to a 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 CNS Obligation to a Trade between Participants. As a result, the 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 a 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.</p> <p>...</p> <p>7.3.12 Close-Out Process</p> <p>a) Actions by CDS</p>

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<p>Upon the termination or suspension of a CNS Participant, CDS: shall:</p> <ul style="list-style-type: none"> i) shall Settle <u>all</u> 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 <u>may delete from the Services any or all Trades of that Participant pursuant to Rule 3.3.9;</u> iii) shall determine the close-out amount for each terminated CNS Obligation; iv) shall 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) may take any steps under Rule 9. <p>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.</p>	<p>Upon the termination or suspension of a CNS Participant, CDS:</p> <ul style="list-style-type: none"> i) shall Settle all CNS Obligations due 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) may delete from the Services any or all Trades of that Participant pursuant to Rule 3.3.9; iii) shall determine the close-out amount for each terminated CNS Obligation; iv) shall 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) may take any steps under Rule 9. <p>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.</p>
<p>7.3.13 Withdrawal from CNS</p> <p>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 Marks. A Participant who has withdrawn from CNS 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</p>	<p>7.3.13 Withdrawal from CNS</p> <p>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 CNS Obligations and has paid the net amount owing by it in respect of CNS Marks. A Participant who has withdrawn from CNS 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</p>

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<p>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.</p>	<p>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.</p>