

## NOTICE OF EFFECTIVE DATE – TECHNICAL AMENDMENTS TO CDS PROCEDURES

### Canadian Securities Exchange (CSE) Buy-Ins

#### A. DESCRIPTION OF THE PROPOSED CDS PROCEDURE AMENDMENTS

Currently, CDS Depository and Clearing Services (“CDS”) coordinates the submission of replacement trades and acts as the clearing organization/agent for buy-ins for securities traded and listed on either the Toronto Stock Exchange (TSX) or TSX Venture Exchange (TSXV). The Canadian Securities Exchange (CSE) has requested that CDS provide the buy-ins coordinator and clearing function for securities listed and traded on CSE.

The following will remain unchanged and unaffected:

- CDS core clearing services and current processes
- All CDSX existing transactions
- Buy-in processes and procedures for participants.

All existing settlement risk edits will be applied to buy-in transactions.

#### Proposed Procedure Amendments

The following sections in Chapter 8 of the *Trade and Settlement Procedures* be updated to accommodate buy-ins by Canadian exchanges other than TSX/TSXV:

- **Chapter 8, section 8.5 Executing and washing out domestic buy-ins**
  - Replace reference to TSX and TSXV with generic wording (a Canadian exchange, the appropriate exchange)
  - Replace reference to TSX and TSXV specific broker number with generic wording (CUID BUYD)
- **Chapter 8, section 8.5.2 Alternate execution and washout processes**
  - Replace TSX with Canadian exchange

CDS procedure amendments are reviewed and approved by the CDS Strategic Development Review Committee (“SDRC”). The SDRC reviews and comments on CDS-related systems development and other changes proposed by Participants and CDS. The SDRC’s membership includes representatives from the CDS participant community and it meets on a monthly basis.

The SDRC reviewed and provided non-disapproval for the amendment on April 26, 2018.

CDS intends to implement the technical amendment to the Procedures on June 1, 2018, subject to regulatory non-disapproval.

The proposed procedure amendments are available for review and download on the User Documentation page on the CDS website at <https://www.cds.ca/cds-services/user-resources/user-documentation>.

#### B. REASONS FOR TECHNICAL CLASSIFICATION

As per item 3 (a)(i) of Appendix A of the Recognition Order, CDS considers the proposed changes as technical in nature:

“matters of a technical nature in routine operating procedures and administrative practices relating to the settlement services;”

The amendment proposed in this notice involves only matters of a technical nature in routine operating procedures and administrative practices relating to the settlement services for the following reasons:

- Buy-in transactions are routine; there will no changes to trade and settlement services.
- Existing settlement risk edits will be applied.
- Estimated transaction volumes would have an immaterial impact.
- Existing CDSX functionality does not require any process changes for Participants.

#### **C. EFFECTIVE DATE OF THE CDS PROCEDURE AMENDMENTS**

CDS is recognized as a clearing agency by the Ontario Securities Commission pursuant to Section 21.2 of the Ontario *Securities Act*, and by the British Columbia Securities Commission pursuant to Section 24(d) of the British Columbia *Securities Act*, and as a clearing house by the *Autorité des marchés financiers* pursuant to Section 169 of the Quebec *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*.

CDS has determined that these amendments, subject to regulatory non-disapproval, will become effective on June 1, 2018.

#### **D. QUESTIONS**

Questions regarding this notice may be directed to:

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## 8.5 Executing and washing out domestic buy-ins

For securities listed and traded on a Canadian exchange ~~the Toronto Stock Exchange (TSX) and TSX Venture Exchange~~, CDS co-ordinates the submission of domestic buy-in related trades (replacement trades) with CDS as the clearing organization. For securities that are not listed and traded on a Canadian exchange ~~the TSX or TSX Venture Exchange~~, CDS instructs the receiver to execute their own buy-ins. For more information, see [Alternate execution and washout processes](#) on page 105.

At the receiver extension response cutoff time, the following occurs:

1. For securities listed and traded on a Canadian exchange ~~the TSX~~, CDS posts the buy-in on the appropriate exchange ~~to the TSX under broker number 100 (market ID=TSE/CDNX)~~. The trade is reported to CDS with CUID BUYD as the buyer.
2. After CDS confirms that a replacement trade has been executed ~~on the TSX~~:
  - a. CDS washes the CNS outstanding positions. The washout process clears the outstanding positions and generates a mark-to-market transaction equal to the value of the CNS outstanding position. The mark is a funds debit to the receiver and funds credit to the deliverer.
  - b. The washout is generally applied after payment exchange. The CNS outstanding positions are cleared immediately.
  - c. The funds are settled on the following business day.
3. CDS arranges for a replacement trade where BUYD is the buyer. The ~~TSX~~ Canadian exchange forwards the trade details to CDS. The trade type is MC (mandatory cash adjustment).
4. CDS sets up an exchange trade for funds only between the deliverer and BUYD for the cash value of the replacement trade with the following details:
  - Trade type – BIA (buy-in adjustment)
  - Mode of settlement – TFT (trade-for-trade settlement)
  - Status – C (confirmed)
  - Tag number – Buy-in ID.
5. CDS sets up a free of payment exchange trade from BUYD to the receiver for the bought-in securities with the following details:
  - Trade type – BIA (buy-in adjustment)
  - Mode of settlement – TFT (trade-for-trade settlement)
  - Status – C (confirmed)
  - Tag number – Buy-in ID.

The buy-in execution and washout details appear in the following reports:

- Exchange Trade Corrections and Adjustments report
- CNS Activity report
- Daily Transaction report
- Settled Transactions report.

For more information, refer to *CDS Reporting Procedures*.

### 8.5.1 Example of the execution and washout of a domestic buy-in

The example below illustrates how a CNS outstanding position for 100 shares of a security at a settlement price of \$500.00 (\$5.00 per share) is executed when the replacement cost is \$600.00 (\$6.00 per share).

1. CDS washes out the original CNS outstanding position by netting it to zero and applying a mark transaction against the funds accounts of the receiver and deliverer. A funds debit (-\$500.00) is applied to the receiver's funds account and a funds credit (+\$500.00) is applied to the deliverer's funds account.
2. CDS arranges a replacement trade by posting a buy-in on the appropriate exchange. The trade is reported to CDS with BUYD as the buyer (-\$600.00 for +100 shares) and CUID X as the seller (+\$600.00 for -100 shares).
3. CDS sets up an exchange trade for funds only between the deliverer (-\$600.00) and BUYD (+\$600.00) for the cost of the shares.
4. CDS sets up a free delivery from BUYD (-100 shares) to the receiver (+100 shares) for the bought-in securities.

The diagram below illustrates the execution and washout process for the CNS outstanding position.

Step	Deliverer		Receiver		BUYD		CUID X	
	ISIN	\$	ISIN	\$	ISIN	\$	ISIN	\$
1.		+500		-500				
2.					+100	-600	-100	+600
3.		-600				+600		
4.			+100		-100			
		-100	+100	-500	0	0	-100	+600

## 8.5.2 Alternate execution and washout processes

If the execution is not completely filled after being posted to a Canadian exchange ~~the TSX~~ for three consecutive days for each buy-in ID, the receiver contacts CDS with one of the following options:

- Go to the exchange and execute the buy-in on a market of their choice at a fair market price. The receiver must be prepared to justify the price at which the buy-in was executed. No commissions are allowed. After executing the buy-in, the receiver phones CDS with the execution details and faxes the details on company letterhead signed by an authorized signatory by end of the business day. The following information must be included:
  - Security name, ISIN and symbol
  - Share quantity
  - Price per share
  - Total dollar value
  - Settlement terms.Once CDS receives the fax, CDS washes out the original CNS positions and processes adjustments for the value of the execution for the receiver and deliverers of the buy-in.
- Take no action so that CDS cancels the remainder of the buy-in.

### Failed buy-in replacement trades

If a cash trade broker fails to deliver shares, CDS will reverse all buy-in related transactions.

## 8.6 Buy-in execution disputes against CDS participants

Delivering participants who want to dispute a buy-in execution by a CDS participant, must forward their dispute in writing to the supervisor, Clearing Services at CDS. The dispute letter must be forwarded no later than two business days after the initial call from CDS on the buy-in execution.

The following types of buy-in executions may be disputed:

- First-hand executions
- Retransmitted (i.e., “jitney”) executions.

Once the dispute letter is received, CDS forwards a copy to the receiving participant and immediately discloses the identities of both parties.

## 8.5 Executing and washing out domestic buy-ins

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At the receiver extension response cutoff time, the following occurs:

1. For securities listed and traded on a Canadian exchange, CDS posts the buy-in on the appropriate exchange. The trade is reported to CDS with CUID BUYD as the buyer.
2. After CDS confirms that a replacement trade has been executed:
  - a. CDS washes the CNS outstanding positions. The washout process clears the outstanding positions and generates a mark-to-market transaction equal to the value of the CNS outstanding position. The mark is a funds debit to the receiver and funds credit to the deliverer.
  - b. The washout is generally applied after payment exchange. The CNS outstanding positions are cleared immediately.
  - c. The funds are settled on the following business day.
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		-100	+100	-500	0	0	-100	+600

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