



# Securities Transfer Association of Canada

**William J. Speirs**  
President

September 3, 2016

**Sent via e-mail**

Fran Daly  
Managing Director, Business Development  
CDS Clearing and Depository Services Inc.  
85 Richmond Street West, 3rd Floor  
Toronto, Ontario M5H 2C9  
[fdaly@cds.ca](mailto:fdaly@cds.ca)

M<sup>e</sup> Anne-Marie Beaudoin  
Secrétaire générale  
Autorité des marchés financiers  
800, square Victoria, 22e étage  
C.P. 246, tour de la Bourse  
Montréal (Québec) H4Z 1G3  
[consultation-en-cours@lautorite.gc.ca](mailto:consultation-en-cours@lautorite.gc.ca)

Manager, Market Regulation  
Market Regulation Branch  
Ontario Securities Commission  
22<sup>nd</sup> Floor, Box 55  
20 Queen Street West  
Toronto, Ontario M5H 3S8  
[marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca)

Doug MacKay  
Manager, Market and SRO Oversight  
British Columbia Securities Commission  
701 West Georgia Street  
P.O. Box 10142, Pacific Centre  
Vancouver, B.C. V7Y 1L2  
[dmackay@bcsc.bc.ca](mailto:dmackay@bcsc.bc.ca)

Bruce Sinclair  
Securities Market Specialist  
British Columbia Securities Commission  
701 West Georgia Street  
P.O. Box 10142, Pacific Centre  
Vancouver, B.C. V7Y 1L2  
[bsinclair@bcsc.bc.ca](mailto:bsinclair@bcsc.bc.ca)

Dear Sirs and Mesdames:

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President: William Speirs, CST Trust Company, 320 Bay Street, 3<sup>rd</sup> Floor, Toronto, Ontario M5H 4A6

Phone: (416) 682-3885

Secretary: Lara Donaldson, Computershare, 100 University Ave., 11<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1

Phone: (416)263-9546 Fax: (416)981-9679

**Re: Proposed Material Amendments to CDS Procedures  
Request for Comments  
CDS Transfer Agent Standards (“CDS TA Standards”)**

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The Securities Transfer Association of Canada (“STAC”) is pleased to be able to offer our comments on the CDS Clearing and Depository Services Inc. (“CDS”) proposed amendments to the CDS TA Standards. STAC is a non-profit association of Canadian transfer agents that among others has the following purposes:

- To promote professional conduct and uniform procedures among its members and others;
- To study, develop, implement and encourage new and improved requirements and practices within the securities industry;
- To develop solutions to complex industry-wide problems;
- To provide a forum and to act as a representative and spokesperson for the positions and opinions of its members, and, where appropriate, its clients and the holders of securities.

STAC members’ clients consist primarily of public and private companies for which they act as transfer agent and registrar. In the vast majority of these cases, these clients trade their securities issues on listed stock exchanges or on over the counter bulletin boards. Further, as transfer agent and registrar, STAC members’ primary function is to keep records of the shareholders of its various clients.

STAC appreciates the importance of the Principals for Financial Market Infrastructures (PFMIs) as defined by the Committee on Payments and Market Infrastructures of the International Organization of Securities Commission (CPMI-IOSCO), and the need for CDS to adhere to the PFMIs. We are requesting that CDS provide details of how each of the proposed requirements measures against and mitigates the specific risk or risks that have been identified.

STAC notes that existing CDS-approved Transfer Agents have been exempted from certain of the requirements, and we would appreciate confirm that these exemptions will not be modified or eliminated. As STAC has previously advised, the process of becoming a Trust Company under the *Trust and Loan Companies Act* is not a process that can be completed without sufficient lead time.

As a voting member of the CDS Strategic Development and Review Committee (SDRC), STAC appreciates the opportunities that we had to consult with CDS prior to the release of the proposed CDS TA Standards. We would like to clarify, however, that during the consultation process that took place between STAC and CDS, the entire proposal was not specifically agreed to on July 5, 2016. The conversation that took place at that time was limited to certain specific areas of the proposal which STAC had previously identified as extremely problematic, and not the entire proposal.

In connection with **Section B. Nature and Purpose of the Proposed CDS Transfer Agent Standards**, we respectfully submit the following comments:

**Item 4 - “Provide CDS on an annual basis with evidence of good standing, in the form of a letter, certificate, or other acceptable document issued by the Transfer Agent’s primary regulator”**

STAC notes that we have not received any assurance that the regulators in question will be in a position to provide written evidence in this regard. We would like to reiterate that we will have no control over a regulator’s decision about whether or not to assist with this requirement, and should not be penalized for being unable to meet this requirement. In the event that CDS has spoken to any regulators, and received assurance that this documentation will be readily available, we would appreciate receiving information on the specific regulators who have agreed to this requirement.

**Item 6 - “Maintain a Financial Institution Bond (FIB) acceptable to CDS, the size of which may vary according to the operations of the transfer agent”**

STAC would appreciate more clarity regarding the purpose of the FIB. A Transfer Agent is an agent, administering record keeping responsibilities for the securities of our issuer clients. We are not subject to prudential regulation, as we do not fulfil a prudential role. You have stated that the FIB is necessary as it ensures *“Financial discipline by transfer agents by adherence to capital adequacy requirements and in order to maintain good standing, a transfer agent’s Financial Institution Bond (FIB) and mitigate operational risks”*, yet you have also included the following information:

**Financial Risks** - CDS Participant Rule 11.2.4 prohibits Transfer Agent participants from participating in the settlement process, from using or offering Lines of Credit, or from using CDSX’s functionality. Transfer agent participant activities, therefore, do not impose any financial risks to CDS or to primary Participants.

CDS Participant Rule 11.2.4 would appear to contradict the need for a transfer agent to maintain a FIB. We would appreciate more clarity regarding the logic behind this proposed requirement, the purpose that it would serve, as well as information about the type of situation that would potentially result in a claim.

STAC also notes that no parameters have been provided in the proposed rules. Although we have been verbally advised that the requirement will not be excessively high, we are requesting that more details be provided in the rules.

**Item 8 - “Provide annual audited financial statements to CDS”**

STAC notes that various transfer agents are a division of a larger entity, and would not necessarily have this requirement readily available. We suggest that the rule should clarify that it would be acceptable to provide audited financial statements of the transfer agent’s parent company.

Thank you again for the opportunity to provide comments on this proposal. We would be pleased to discuss our comments with you directly.

September 3, 2016

Yours truly,



William J. Speirs  
President  
Phone: 416-682-3885  
Email: [bspeirs@canstockta.com](mailto:bspeirs@canstockta.com)