

CDS Clearing and Depository Services Inc. (CDS®)

MATERIAL AMENDMENTS TO CDS PROCEDURES

**Discontinuation of On-Site Contingency Service
in CDS Vancouver and Calgary**

REQUEST FOR COMMENTS

A. DESCRIPTION OF THE PROPOSED CDS PROCEDURE AMENDMENTS

Background

Over the last few years, CDS has been continually reviewing our volume transactions within all regional offices and the value we provide to our participants. It has historically been deemed necessary that with some transfer agents resident in only one of our regional centres, CDS would maintain a vault locally to ensure timely delivery to cover settlements, and to save on the transportation costs associated with the regular movement of securities to and from these transfer agents.

With several of the regional specific transfer agents being acquired by larger transfer agents that have centralized their operations away from Vancouver and Calgary, and more securities being issued in un-certificated form, physical securities are no longer being held in the Calgary and Vancouver locations. As a result of these operational changes, the CDS Vancouver and Calgary offices are being relocated by the beginning of June 2015. (Please refer to REVISED Notice of Effective Date – Technical Amendments to CDS Procedures, Relocation of Calgary and Vancouver CDS Offices, dated 13 May 2015.)

Due to the limited space in the new locations and low subscriber usage, the On-site Contingency Service will be discontinued at the CDS Vancouver and Calgary locations.

B. NATURE AND PURPOSE OF THE PROPOSED CDS PROCEDURE AMENDMENTS

CDS is seeking approval for an exemption to Schedule A, Section 4 of the British Columbia Securities Commission (BCSC) Recognition Order for CDS Clearing and Depository Services Inc., to discontinue offering the On-site Contingency Service at the CDS Vancouver and Calgary offices:

“Local presence

4. CDS will maintain an office in Vancouver through which it will provide a level of service that ensures British Columbia users of CDS services are not disadvantaged as compared to users of CDS services in the jurisdiction where CDS has its head office.”

CDS proposes to discontinue this service in CDS Vancouver and Calgary effective June 1st, 2015, in conjunction with the relocation of those offices.

C. IMPACT OF THE PROPOSED CDS PROCEDURE AMENDMENTS

All CDS Vancouver and Calgary Participants have been contacted regarding the discontinuation of the On-site Contingency Service in order to assess possible impacts to their firms prior to the submission of this notice. All of these Participants have confirmed that this change will have no

impact to their firm's contingency plans as they all have alternative back-up sites. There is no material impact to CDS internal operations.

C.1 Competition

This is a subscription based service and currently only one participant in Vancouver subscribes to the monthly standby charge. This Participant advised CDS that they were using CDS's On-site Contingency Service as a third back up to their disaster recovery site, and that terminating their subscription would not be an issue. There are no Participants in Calgary currently subscribing to this service. Participants in Vancouver and Calgary have their own dedicated disaster recovery plans (DRP) through (i) a third party vendor, (ii) their offices in other locations, or (iii) access to CDS remotely via a secure and authenticated pathway (SSL VPN access).

C.2 Risks and Compliance Costs

As determined during discussions concerning the discontinuation of the On-site Contingency Service, CDS Participants in Vancouver and Calgary have mitigated their crisis management and recovery risks through alternative DRP arrangements, via vendors offering hot, cold and warm site disaster recovery options; relocation to branch locales; and remote access to CDS services. As a result, there will be no risk or compliance costs for Participants associated with this change.

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

Not applicable.

D. DESCRIPTION OF THE PROCEDURE DRAFTING PROCESS

D.1 Development Context

There is no development requirement to implement the discontinuation of the On-site Contingency Service in CDS Vancouver and Calgary.

D.2 Procedure Drafting Process

The CDS procedure amendments are drafted by CDS's Product Development group, and subsequently reviewed and approved by CDS's Strategic Development Review Committee (SDRC). The SDRC determines or reviews, prioritizes and oversees CDS-related systems development and other changes proposed by participants and CDS. The SDRC's membership includes representatives from a cross-section of the CDS participant community and it meets on a monthly basis.

These amendments were reviewed and approved by the SDRC on April 30th, 2015.

D.3 Issues Considered

The most critical issues considered in determining whether to proceed with the discontinuation of the On-site Contingency Service was whether this will have a material impact to the DRP processes of CDS Vancouver and Calgary participants, and compliance to the "local presence" directive of Section 4 of the BCSC Recognition Order. Participants have indicated they have alternative disaster recovery

strategies or remote access into CDS, and therefore do not have any issues with this proposed change.

CDS recognizes that discontinuing this service will be off side to the BCSC Recognition Order, but as this service is subscription based, has low usage, and has no material impact to Vancouver and Calgary Participants, CDS is requesting an exemption from Section 4 of BCSC Recognition Order in order to discontinue the On-site Contingency Service in Vancouver and Calgary.

D.4 Consultation

CDS Customer Account Managers in Vancouver and Calgary communicated with all impacted Participants regarding the discontinuation of the On-site Contingency Service prior to submission of this notice.

D.5 Alternatives Considered

No alternatives were considered due to the limited space available in the two new CDS branch locations.

D.6 Implementation Plan

The proposed procedure amendments and the scheduled date of implementation have been communicated to CDS Participants through the CDS Customer Service areas in Vancouver and Calgary.

CDS will issue a bulletin two weeks prior to the relocation or subject to regulatory approval regarding the discontinuation of the On-site Contingency Service in CDS Vancouver and Calgary locations.

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*. The *Autorité des marchés financiers*, the Bank of Canada, the British Columbia Securities Commission and the Ontario Securities Commission will hereafter be collectively referred to as the “Recognizing Regulators”.

The amendments to Participant Procedures may become effective upon approval of the amendments by the Recognizing Regulators following public notice and comment. Implementation of this initiative is planned for June 1, 2015.

E. TECHNOLOGICAL SYSTEM CHANGES

E.1 CDS

No change is required.

E.2 CDS Participants

No change is required.

E.3 Other Market Participants

No change is required.

F. COMPARISON TO OTHER CLEARING AGENCIES

Depository Trust & Clearing Corporation (DTCC) participants access DTCC's settlement, depository, and clearing functions through a web-based facility, which allows login capability as long as a participant's back up site's IP address is set up as an alternative site. DTCC does not offer an On-site Contingency Service.

G. PUBLIC INTEREST ASSESSMENT

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

H. COMMENTS

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

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

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

I. PROPOSED CDS PROCEDURE AMENDMENTS

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