

NOTICE OF EFFECTIVE DATE – TECHNICAL AMENDMENTS TO CDS PROCEDURES

CHANGES TO ELIGIBLE COLLATERAL FOR COLLATERAL POOLS AND PARTICIPANT FUNDS

A. DESCRIPTION OF THE PROPOSED CDS PROCEDURE AMENDMENTS

On September 5, 2013, the Bank of Canada notified¹ market participants that as part of a regular review of the Bank's policy in relation to Assets Eligible as Collateral under the Bank of Canada's Standing Liquidity Facility (SLF), the Bank planned to introduce new concentration limits for private sector and municipal securities.

The Bank of Canada announced on March 13, 2014 that the following changes to its SLF policy will be implemented effective September 30, 2014:

- All eligible securities issued by a municipal government or a private sector issuer (including corporate bonds, covered bonds, bankers' acceptances, commercial paper, and ABCP) will be subject to a new sectoral concentration limit. No more than 20 per cent of the total collateral value pledged by an institution may be comprised of such municipal and private sector securities.
- Securities issued by LVTS participants or related parties (including covered bonds, but excluding ABCP sponsored by an LVTS participant) will be subject to a sectoral concentration limit of 10 per cent of the total collateral value pledged by an institution, and included as part of the overall municipal and private sector limit above.
- Obligations of a single private sector or municipal issuer or related parties (including covered bonds) will be limited to no more than 5 per cent of the total collateral value pledged by an institution.

CDS permits only the most liquid assets as collateral and therefore restricts the eligibility of securities that can be pledged as collateral contribution in category credit ring collateral pools and participant funds. Traditionally collateral eligibility for the category credit ring collateral pools and participant funds has been aligned with the eligibility requirements of the Bank of Canada's SLF. This alignment is appropriate given that, in the event of a participant default, it is possible that collateral would have to be pledged to the Bank of Canada under its SLF.

CDS's proposed corresponding changes to eligible collateral sector limits for the category credit ring collateral pools and the participant funds were presented to the CDS's Risk Advisory Committee (RAC) and thereafter to the Risk Management and Audit Committee (RMAC) of the CDS Board of Directors on May 5, 2014. The RMAC recommendation to the Board of Directors to approve the proposed changes to eligible collateral sector limits for the category credit ring collateral pools and the participant funds was accepted on May 6, 2014.

The proposed corresponding changes to the eligible collateral sector limits for the category credit ring collateral pools and the participant funds will require application changes to CDSX, CDS's clearing and settlement system. Subject to regulatory approval, current plans are to be ready to implement the required application changes in the first quarter of 2015.

CDS procedure amendments are 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 the CDS participant community and it meets on a monthly basis.

¹ The Bank of Canada notice can be found at: <http://www.bankofcanada.ca/2013/09/publications/notices/consultation-planned-changes-conditions-assets/>

The proposed procedure amendments are available for review and download on the User Documentation page on the CDS website at www.cds.ca/cdsclearinghome.nsf/Pages/-EN-UserDocumentation?Open.

B. REASONS FOR TECHNICAL CLASSIFICATION

The amendments proposed in this Notice are considered technical in nature, and are required for consistency with the Bank of Canada's new concentration limits for private sector and municipal securities.

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 intends to implement the proposed amendments as soon as practicable subject to receipt of regulatory approval/non-disapproval and subject to the notice period required under CDS's Participant Rules

D. QUESTIONS

Questions regarding this notice may be directed to:

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