CDS Clearing and Depository Services Inc. (CDS®)

Methodology Enhancement to the TRAX Entitlements Tracking System and Fee Increase

REQUEST FOR COMMENTS

A. DESCRIPTION OF THE PROPOSED AMENDMENTS

Background

A due bill is a financial instrument used to document and identify a security seller's obligation to deliver a pending dividend to the security's buyer. A due bill is also used when the security's buyer is obliged to deliver a pending dividend to the security's seller. Due bills function as promissory notes and ensure that the true entitlement holder receives a security's dividend when the security is traded near its ex-dividend date. The Entitlements and Corporate Actions subcommittee of the Strategic Development Review Committee (SDRC) requested that CDS modify the manner in which CDSX determines which Participants are paid due bills and against which trades CDSX should track claims for due bills.

TRAX is an online tool available to CDS Participants that allows Participants to track trade settlements on securities where Due Bill processing applies. Coincident with the methodology change for calculating due bill eligibility, subscribers to the TRAX - Entitlements Tracking service will enjoy a due-bill reporting structure that is more closely aligned with practice in the United States. Concurrent to the technological modification, CDS proposes to amend the fee currently charged for the use of TRAX - Entitlements Tracking service, which CDS offers on a subscription basis.

Subject to regulatory approval, CDS intends to implement the technological change on January 31, 2015. The amended fee for the use of TRAX is intended to be made effective on or after January 31, 2015.

B. NATURE AND PURPOSE OF THE PROPOSED CDS PROCEDURE AMENDMENTS

The due bill calculation currently includes all trades that: a) settle between record-date-plus-one (RD+1) and end of business on the due-bill-redemption-date (DBRD), and b) were reported to CDS with a trade date less than the ex-dividend date. Trades with a trade type of DLV (deliveries from DTC), AT (trades submitted by the ATON service), and MB (deliveries related to marriage breakdown activities) are exceptions to the rule and are included in the calculation. Due bill claims are generated if the trades remained outstanding (unsettled) past the DBRD. The proposed system modification eliminates the trade-date restriction; due bills will be tracked for all trades that settle between record date plus one (RD+1) and end of business on due bill redemption date (DBRD).

The current fee for the TRAX - Entitlements Tracking service is \$1.75 per CUID per day. CDS proposes to increase this fee by \$4.00 per CUID per day to \$5.75 per CUID per day. In monetary terms, this translates to an increase of approximately \$86 per month or \$1,032 per year per CUID. The billing code is 6390.

CDS is requesting approval to implement the proposed fee pursuant to Article 26.6 of the Autorité des marchés financiers Recognition Decision 2012-PDG-0142, as amended, Section 7.6 of Schedule B of the OSC Recognition Order, as amended, and Section 9 of the BCSC Recognition Order, as amended.

C. IMPACT OF THE PROPOSED CDS PROCEDURE AMENDMENTS

The proposed technical modification will result in the due bills calculation capturing a larger number of trades, and a consequential reduction in reconciliation and dividend claiming activities. The TRAX – Entitlements Tracking Service is a subscription service available to all CDS Participants.

C.1 Competition

The system modification is intended to align CDS's practice with the methodology used to track due bills at the Depository Trust Corporation (DTC) in the United States and will result in increased consistency, enhanced straight-through-processing, and fewer reconciliation activities for all of CDS's participants. While subscribers to the TRAX - Entitlements Tracking service are receiving a premium reporting product, less than half of CDS's Participants currently subscribe to the service, and the enhancement, with its concomitant fee increase, will not result in any subset or group of Participants either reaping a competitive advantage or being put at a competitive disadvantage.

C.2 Risks and Compliance Costs

The proposed methodology change does not impose any additional risks or compliance costs to CDS's Participants. All changes are limited to CDS's systems.

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

In compliance with CDS's obligations under the *CDS Recognition Order,* CDS must ensure that it complies with, and adheres to, the Principles for Financial Market Infrastructure (PFMIs) of the Committee on Payment and Settlement Systems of the Bank for International Settlements and the Technical Committee of the International Organization of Securities Commissions (collectively known as CPSS/IOSCO).

Principle 21 – "Efficiency and effectiveness", states that "a*n FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves." One of the Key considerations in this principle is that "An FMI should be designed to meet the needs of its participants and the markets it serves, in particular, with regard to choice of a clearing and settlement arrangement; operating structure; scope of products cleared, settled, or recorded;* ***and use of technology and procedures****."* [emphasis added]

CDS is of the view that this modification to a calculation methodology is entirely consistent with the above principle.

D. DESCRIPTION OF THE DEVELOPMENT AND FEE SETTING PROCESS

D.1 Development Context

The Entitlements and Corporate Actions subcommittee of the SDRC requested that CDS make changes to the due bill tracking process in order to enhance this process's alignment with similar processing in the United States. The fee increase is consistent with CDS's principle of pricing for value.

D.2 Methodology Development Process

Technical requirements for the modification were tabled by the SDRC subcommittee. CDS reviewed the requirement and proposed changes to a working group nominated by the SDRC Entitlements and Corporate Actions subcommittee. Development costs and proposed fees were subsequently reviewed with the subcommittee; the subcommittee validated the proposed functional changes and agreed that the fee increase was justified in light of the expected internal operational benefits. The proposed modification and fee structure was then presented to the SDRC for final agreement to proceed.

The proposed fee was presented to the SDRC on June 26, 2014 and the Fee Committee on August 12, 2014.

The fee increase was tabled with CDS's Risk Management and Audit Committee (RMAC) on September 24, 2014 for comment prior to submission for regulatory review. Upon review, RMAC agreed to proceed.

D.3 Issues Considered

This change was considered a high priority item with only a single possible solution. Members of the Entitlements and Corporate Actions subcommittee inquired whether CDS could incorporate tracking due-bills against outstanding loans as well. It was agreed that this was not feasible in the current environment. The members agreed to take this up as a separate work request.

D.4 Consultation

The functional requirements were vetted and agreed to by a working group appointed by the Entitlement and Corporate actions subcommittee. The functional requirements were subsequently reviewed by the subcommittee and the SDRC as a whole.

The proposed fee was reviewed by the above-mentioned groups as well as by the CDS Participant Fee Committee.

D.5 Alternatives Considered

No alternatives were considered.

D.6 Implementation Plan

Subject to regulatory approval, CDS intends to implement the proposed change to methodology, and concomitant fee increase, by January 31, 2015.

CDS will apply its usual communications protocol for functional and or fee changes.

The implementation schedule is communicated to impacted stakeholders through the SDRC and its subcommittees as well as through the Customer Relationship Management team. Subscribers are provided with a detailed description of the changes and are provided with an opportunity to receive impacted files and or messages (if applicable) in a test environment.

Two weeks prior to the implementation of the technology and fee change CDS will issue a bulletin confirming the implementation date. Clients need not take any action; though they have an opportunity to unsubscribe to related services at any time.

The fee increase will be applied to service code 6390 appearing in the Depository, Custodial and Entitlement Services section of the CDS 2014 Price Schedule, listed as TRAX Entitlements Tracking.

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.*

E. TECHNOLOGICAL SYSTEM CHANGES

E.1 CDS

A system change will be implemented eliminating the current trade date restriction; due bills will be tracked for all trades that settle between record date plus one (RD+1) and end of business on due bill redemption date (DBRD).

E.2 CDS Participants

There are no impacts to Participant systems.

E.3 Other Market Participants

There are no impacts to Participant service providers systems.

F. COMPARISON TO OTHER CLEARING AGENCIES

This functional change aligns with how the DTC processes due bills. The proposed new fee is specific to CDSX Participants who subscribe to the TRAX Entitlements Tracking system. CDS is not aware of any similar due bill tracking services provided by other depositories and clearing agencies outside of Canada.

G. PUBLIC INTEREST ASSESSMENT

CDS has determined that the proposed fees 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.