

NOTICE OF EFFECTIVE DATE – TECHNICAL AMENDMENTS TO CDS PROCEDURES

CNS Enhancement Initiatives – CNS Collateral Deadlines

A. DESCRIPTION OF THE PROPOSED CDS PROCEDURE AMENDMENTS

The deadline by which time CDS participants must pledge collateral to meet their obligations to all services, including the Continuous Net Settlement (“CNS”) Participant Fund, is 12:00 pm Eastern Time (“ET”) each business day - 5 hours after the margin call¹. Of all of CDS’s collateral pools and funds, the collateral requirements for the CNS Participant Fund are the most likely to change and, consequently, require rebalancing on a daily basis.

The following table² illustrates CDS current collateral pledge deadlines.

Contribution	Beginning of day requirement		Action
	All services (excluding the NSCC participant fund for New York Link)	NSCC participant fund for New York Link only	
Initial	12:00 p.m. ET 10:00 a.m. MT ³ 9:00 a.m. PT ⁴	9:00 a.m. ET 7:00 a.m. MT 6:00 a.m. PT	If CDS does not receive the required contribution by the initial deadline, the participant is fined
Final	1:00 p.m. ET 11:00 a.m. MT 10:00 a.m. PT	9:30 a.m. ET 7:30 a.m. MT 6:30 a.m. PT	If CDS does not receive the required contribution by the final deadline, the participant is suspended

As the timelines are currently structured, there is a possibility that there could be insufficient CNS Participant Fund collateral to cover a defaulter’s credit risk for 67% of the intraday settlement period⁵, leaving CNS survivors, at a greater risk of having to cover a defaulter’s collateral shortfall. The existing collateral deadlines create unnecessary exposure to CDS as central counterparty (“CCP”) and will be therefore moved to earlier in the day.

CDS proposes to advance the collateral pledge deadlines as follows:

- Initial Deadline: Two (2) hours in each case
- Final Deadline: Two and one half hours in each case

The proposed changes are illustrated in the following table.

¹ Participants are advised through CDSX of their daily collateral requirements by 7:00 am.

² The table can be found in Participating in CDS Services - Chapter 15 “Collateral administration”.

³ Mountain Time = MT

⁴ Pacific Time = PT

⁵ Given there are 9 hours from the time of the collateral requirement is updated in CDSX at 7:00 am ET to the beginning of end-of-day payment exchange at 4:00 pm ET, the 6 hours from 7:00 am ET to the suspension of a participant at 1:00 pm ET during which collateral can be posted represents 67% of the time span.

Contribution	Beginning of day requirement		Action
	All services (excluding the NSCC participant fund for New York Link)	NSCC participant fund for New York Link only	
Initial	10:00 a.m. ET 8:00 a.m. MT 7:00 a.m. PT	9:00 a.m. ET 7:00 a.m. MT 6:00 a.m. PT	If CDS does not receive the required contribution by the initial deadline, the participant is fined
Final	10:30 a.m. ET 8:30 a.m. MT 7:30 a.m. PT	9:30 a.m. ET 7:30 a.m. MT 6:30 a.m. PT	If CDS does not receive the required contribution by the final deadline, the participant is suspended

CNS Participants have been advised of the proposed changes to the collateral deadlines, and the proposed changes were presented to CDS’s Risk Advisory Committee (“RAC”) on April 22, 2015. The proposed amendments were endorsed by the RAC.

CDS procedure amendments were reviewed and approved by CDS’s Strategic Development and Review Committee (“SDRC”) on April 30, 2015. 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.

The proposed amendments were subsequently presented to the Risk Management and Audit Committee (“RMAC”) of the CDS Board of Directors on May 6, 2015. RMAC’s recommendation to the CDS’s Board of Directors to approve the proposed amendments to the CNS Participant Fund collateral deadlines was accepted on May 7, 2015.

The proposed amendments to the CNS Participant Fund collateral deadlines do not require any application or other system changes.

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 to mitigate risk exposure to CDS 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 will become effective on June 1, 2015.

D. QUESTIONS

Questions regarding this notice may be directed to:

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