

**CDS Clearing and Depository Services Inc. (CDS®)**

**MATERIAL AMENDMENTS TO CDS RULES**

**LIQUIDITY RISK MANAGEMENT**

**REQUEST FOR COMMENTS**

**A. DESCRIPTION OF THE PROPOSED CDS RULE AMENDMENTS**

The proposed rule amendments to the CDS Participant Rules will:

- (i) require the Participants of the continuous net settlement function (“CNS” or “CNS Function”) to provide money in Canadian dollars as the sole type of eligible collateral permitted in the Default Fund;

These proposed rule amendments are minor. The main provisions regarding this change will be found in CDS’ external procedures and risk model documents.

- (ii) require the Participants of the CNS Function to contribute to a new fund entitled Supplemental Liquidity Fund by providing money in Canadian dollars as the sole type of eligible collateral in that fund; the Supplemental Liquidity Fund will ensure that CDS has sufficient liquidity to meet its payments obligations during stressed market conditions resulting of the default of a Participant and its affiliates that would generate the largest aggregate payment obligation to CDS in extreme but plausible market conditions.

These proposed rule amendments are substantial and can be primarily found in the newly created Section 5.15 of CDS Participant Rules. The new rules will contain provisions related to, among other topics:

- establishment of the fund and determination of the contribution (reference is made to the external procedures);
- excess and refund of the contribution;
- creation of a security interest;
- request for additional contribution.

- (iii) require the Cross-Border Participants of the New York Link service to provide money in U.S. dollars as the sole type of eligible collateral allowed in the NYL Link Fund.

These proposed rule amendments are minor. The main provisions regarding this change will be found in CDS’ external procedures and risk financial documents.

CDS also proposes to amend Section 9 of CDS Participant Rules in order to (i) consider a failure to make any contribution to the Supplemental Liquidity Fund as a ground for suspension, and (ii) explain the use of the Supplemental Liquidity Contributions in a Participant’s suspension situation. In addition to these proposed rule amendments, CDS will also take the opportunity to make several housekeeping and typographical amendments. All proposed amendments are provided in Appendix “A” to this Notice.

**B. NATURE AND PURPOSE OF THE PROPOSED CDS RULE AMENDMENTS**

Principle 7 of the CPMI-IOSCO Principles For Financial Market Infrastructures (PFMIs), originally published in April, 2012, states that an “FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multi-day settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but

not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.”

A clarifying guidance was published in 2017 following a CPMI-IOSCO report on implementation update that uncovered that many FMIs had not made sufficient progress or had implemented risk management programs in substantially different ways.

Based on the foregoing, and after considering various options, CDS has decided to enhance its compliance to PFMI standards (Principle 7) and its risk management practices by:

- requesting Participants of the CNS Function to satisfy their contributions to the CDS Default Fund by delivering only money in Canadian dollars (instead of Canada treasury bills, provincial treasury bills and similar permitted securities);
- creating the Supplemental Liquidity Fund and requesting Participants of the CNS Function to contribute money in Canadian dollars. This new fund could be used by CDS to meet various payment obligations and cover liquidity shortfalls on time with a high degree of confidence under various potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation to the CDS in extreme but plausible market conditions.
- requesting Cross-Border Participants of the New York Link service to satisfy their contributions to the NYL Link Fund by delivering money in US dollars (instead of Canada treasury bills and U.S treasury bills).

These additional liquidity resources, in the form of ready-available cash, will be coupled with CDS's existing credit facilities to meet its requirements under the PFMI standards.

Like for the current Participant Fund and Default Fund, details with respect to the sizing of the Participants' obligations to the Supplemental Liquidity Fund will be provided in the external procedures. In short, the Supplemental Liquidity Fund will be sized by CDS to have sufficient resources to cover potential liquidity stress scenarios. The Supplemental Liquidity Fund will consist of two tiers sizing based on the activity level of the Participants in the CNS Function. The tier 1 will be based on the daily CNS outstanding positions of all Participants of the CNS Function, excluding those outstanding positions that are included in tier 2. The tier 2 will be based on a specific subset of CNS outstanding positions: the positions of those CNS Participants whose activity levels have demonstrated spikes in CNS activity on certain specific business days (i.e. Triple Witching Period). For the CNS participants that have demonstrated CNS activity on any one of those specific business days in the lookback period, all specific business days will be included in the subset of CNS outstanding positions used to size the tier 2 Supplemental Liquidity Fund collateral requirement.

The use of two tiers is consistent with the longstanding operating principle that requires Participants to bear responsibility for the financial – or other - risks they pose to the operations of the clearing and settlement system.

CDS is the view that the proposed changes to the risk management process that are reflected through the proposed rule amendments will solidify CDS's liquidity risk framework that is required to manage the Participants' liquidity risks. The proposed rule amendments strengthen the operational tools that help CDS identify, monitor and measure the liquidity risk.

### **C. IMPACT OF THE PROPOSED CDS RULE AMENDMENTS ON CDS AND ON CDS PARTICIPANTS**

- (a) CDS – The proposed rule amendments will enhance CDS' compliance with PFMI standard (including Principle 7) and with the risk management practices of comparable central

counterparties.

- (b) CDS Participants – Financing cash may involve different costs than those incurred by financing securities and therefore, some CDS Participants may see some impacts in their cost of borrowing, or be faced with an opportunity cost. However, this burden will be partially offset since the CDS Participants generally receive the net amount of any interest, dividend or income received by CDS on the invested collateral of a Participant, in accordance with the Procedures, provided the Participant's obligations to CDS have been fulfilled.
- (c) Other market participants – the proposed rule amendments will have no impact on other market participants.
- (d) Securities and Financial Market in General – the proposed amendments will have no impact on the securities and financial market. The proposed amendments are expected by CDS' regulators.

### **C.1 Competition & Conflict of Interest Analysis**

The proposed rule amendments will apply to all CDS Participants. As concerns fair access and conflict of interest issues, no CDS Participants will be disadvantaged or otherwise prejudiced by the introduction of the proposed changes.

### **C.2 Risks and Compliance Costs**

The proposed rule amendments are intended to enhance CDS' compliance with PFMI standards (Principle 7). Financing cash may involve different costs than those incurred by financing securities and therefore, some CDS Participants may see some impacts in their cost of borrowing, or be faced with an opportunity cost. However, this burden will be partially offset since the CDS Participants generally receive the net amount of any interest, dividend or income received by CDS on the invested collateral of a Participant, in accordance with the Procedures, provided the Participant's obligations to CDS have been fulfilled.

### **C.3 Comparison to International Standards – (a) The Committee on Payments and Market Infrastructures of the Bank for International Settlements, (b) Technical Committee of the International Organization of Securities Commissions, and (c) the Group of Thirty**

The proposed rule amendments are intended to enhance CDS' observance of PFMI standards (including Principle 7), as required under CDS' recognition orders as well as under National Instrument 24-102 (Clearing Agency Requirements) and related Companion Policy 24-102CP.

## **D. DESCRIPTION OF THE RULE DRAFTING PROCESS**

### ***D.1 Development Context***

CDS legal and risk management representatives have prepared documents describing the proposed rule amendments.

### ***D.2 Rule Drafting Process***

The proposed rule amendments were drafted by representatives of CDS legal, in consultation with CDS risk management representatives, and were subsequently reviewed by CDS' Legal Drafting Group ("**LDG**") on October 17, 2019. The LDG is an *ad hoc* advisory committee composed of legal and business representatives of participating CDS Participants. The LDG comments on the drafting of proposed amendments to the CDS Rules and may suggest revisions and additions.

### ***D.3 Issues Considered***

In drafting the proposed rule amendment, CDS' primary consideration was to update its risk management practices with respect to PFMI 7 and amend, update or clarify CDS' Rules related thereto.

### ***D.4 Consultation***

The proposed rule amendments were presented to the LDG on October 17, 2019, and subsequently to the Risk Management and Audit Committee on October 30, 2019, and to the CDS Board of Directors on October 31, 2019. Approval of the proposed amendments for filing, public comment and regulatory review was received by written resolution of the CDS Board of Directors on October 31, 2019.

### ***D.5 Alternatives Considered***

In considering the proposed rule amendments, and the underlying change to CDS' risk management practices, CDS has reviewed whether it could rely on additional lines of credit. CDS also reviewed and determined the impediments of having highly marketable collateral that could still not be quickly converted into cash in short notice. CDS finally determined that it would require the Participants of the CNS Function (i) to provide money in Canadian dollars as the sole type of eligible collateral allowed in the Default Fund; and (ii) to contribute to the new Supplemental Liquidity Fund by providing money in Canadian dollars as the sole type of eligible collateral acceptable in that fund. In addition, CDS will require the Cross-Border Participants of the New York Link service to provide money in U.S. dollars as the sole type of eligible collateral allowed in the NYL Link Fund.

### ***D.6 Implementation Plan***

CDS is recognized as a clearing agency by the Ontario Securities Commission pursuant to section 21.2 of the *Securities Act* (Ontario), by the British Columbia Securities Commission pursuant to Section 24(d) of the *Securities Act* (British Columbia) and by the *Autorité des marchés financiers* ("AMF") pursuant to section 169 of the *Securities Act* (Québec). In addition CDS is deemed to be the clearing house for CDSX<sup>®</sup>, a clearing and settlement system designated by the Bank of Canada pursuant to section 4 of the *Payment Clearing and Settlement Act*. The Ontario Securities Commission, the British Columbia Securities Commission, the *Autorité des marchés financiers* and the Bank of Canada will hereafter be collectively referred to as the "Recognizing Regulators".

The amendments to CDS Participant Rules are expected to become effective on a date to be determined by CDS (such date expected to be in Q1 2020), such date to fall subsequent to approval of the amendments by the Recognizing Regulators following public notice and comment and be contingent on completion of appropriate testing and applicable notice to CDS participants.

## **E. Technological systems changes**

Except for the creation of the new Supplemental Liquidity Fund in CDS's systems and other configuration changes, which will not require any material work from CDS, the proposed rule amendments are not expected to have an impact on technological systems, or require changes to such systems for CDS, CDS participants, or other market participants.

## **F. Comparison to other clearing agencies**

The main international clearing agency that is comparable to CDS is the Depository Trust & Clearing Corporation (DTCC), and its subsidiary National Securities Clearing Corporation (NSCC) in the United States. CDS has reviewed the NSCC Rules, and has determined that NSCC's rules

contained similar provisions (request for supplemental liquidity deposits in NSCC's clearing fund) to the ones proposed in this notice.

As another example, the Options Clearing Corporation has maintained and renewed a \$2 billion committed credit facility from a consortium of banks, while reducing clearing member participation in such facilities to reduce concentration risk. The organization also enhanced the availability of pre-funded financial resources by requiring a minimum of \$3 billion in cash in its clearing fund, which is held at the Chicago Federal Reserve Bank. Finally, the OCC also became the first and only systemically important clearing house to add a new \$1 billion non-bank committed credit facility with a large U.S. pension fund.

#### **G. Public interest assessment**

CDS believes that the proposed rule amendments are not contrary to the public interest.

#### **H. Comments**

Comments on the proposed rule amendments must be made in writing and submitted within 30 calendar days following the date of publication of this notice in the Ontario Securities Commission Bulletin to:

CDS Clearing and Depository Services Inc.  
Attn: Legal Department, Tony Hoffman, Senior Legal Counsel  
100 Adelaide Street West – Suite 300  
Toronto, Ontario, M5H 1S3  
Email: [tony.hoffman@tmx.com](mailto:tony.hoffman@tmx.com)

with a copy to Martin Jannelle, Senior Legal Counsel  
Email: [martin.jannelle@tmx.com](mailto:martin.jannelle@tmx.com)

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

Philippe Lebel  
Corporate Secretary and  
Executive Director, Legal Affairs  
Autorité des marchés financiers  
Place de la Cité, tour Cominar  
2640 Laurier boulevard, suite 400  
Québec (Québec) G1V 5C1  
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Notice and Request for Comment – Material Amendments to CDS Participant Rules related to  
Liquidity Risk Management

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

**I. PROPOSED CDS RULE AMENDMENTS**

Appendix “A” contains text of current CDS Participant Rules marked to reflect the proposed rule amendments as well as text of these rules reflecting the adoption of the proposed amendments.

**APPENDIX “A”  
PROPOSED CDS RULE AMENDMENTS**

**1.2. DEFINITIONS**

**1.2.1 Definitions**

“**CCP Cap**” means the threshold amount with respect to the CCP Functions that if exceeded requires the pledging of CCP Collateral, which threshold amount is established in accordance with Rule 5.14.

“**Collateral**” means, with respect to a suspended Participant:

- (i) its Contributions to a Collateral Pool;
- (ii) its Contributions to a Fund;
- (iii) its Settlement Service Collateral;
- (iv) its Specific Collateral; ~~and~~
- (v) its CCP Collateral; ~~and~~
- ~~(vi) its Supplemental Liquidity Contributions.~~

“**Defaulter’s Collateral**” means a Defaulter's Fund Contributions, Collateral Pool Contributions, Specific Collateral, CCP Collateral, Settlement Service Collateral, ~~and~~ Category Credit Ring Collateral (including Settlement Service Collateral and Collateral Pool Contributions) ~~and Supplemental Liquidity Contributions~~.

“**Maximum Exposure Point**” or “**MEP**” means the greatest Exposure of an Extender reached during a Business Day, as calculated by CDS pursuant to Rule ~~3.7.4~~ ~~0~~.

“**Supplemental Liquidity Contribution**” means the Supplemental Liquidity Contribution as the term is defined in Rule 5.15, in which the Participant grants a security interest in favour of CDS.

“**Supplemental Liquidity Fund**” means the Supplemental Liquidity Fund established pursuant to Rule 5.15.

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“**Defaulter’s Collateral**” means a Defaulter's Fund Contributions, Collateral Pool Contributions, Specific Collateral, CCP Collateral, Settlement Service Collateral, Category Credit Ring Collateral (including Settlement Service Collateral and Collateral Pool Contributions) and Supplemental Liquidity Contributions.

“**Maximum Exposure Point**” or “**MEP**” means the greatest Exposure of an Extender reached during a Business Day, as calculated by CDS pursuant to Rule 3.7.4.

“**Supplemental Liquidity Contribution**” means the Supplemental Liquidity Contribution as the term is defined in Rule 5.15, in which the Participant grants a security interest in favour of CDS.

“**Supplemental Liquidity Fund**” means the Supplemental Liquidity Fund established pursuant to Rule 5.15.

<p><b>1.6. OVERVIEW OF CDSX SERVICES</b>  <b><u>1.6.12 Supplemental Liquidity Fund</u></b></p> <p><u>All Participants to CNS (other than Bank of Canada, TA Participants, ATON Participants and ACT Participants) must provide additional liquidity to CDS in the form of Supplemental Liquidity Contributions to the Supplemental Liquidity Fund.</u></p>	<p><b>1.6. OVERVIEW OF CDSX SERVICES</b>  <b>1.6.12 Supplemental Liquidity Fund</b></p> <p>All Participants to CNS (other than Bank of Canada, TA Participants, ATON Participants and ACT Participants) must provide additional liquidity to CDS in the form of Supplemental Liquidity Contributions to the Supplemental Liquidity Fund.</p>
<p><b>3.2. ACTION BY CDS</b></p> <p>CDS may use the system in order to facilitate the operation of the Services, to improve the Services offered to Participants or to reduce the risks or costs associated with providing the Services. Without limiting the generality of the foregoing, CDS maintains Ledgers for itself, including but not limited to the Collateral Administration Ledgers and Ledgers used to Settle Central Counterparty Obligations. Securities credited to a Securities Account, Collateral Account or Offer Account of CDS are held by CDS for its own benefit. CDS may effect Transactions for its own account through any Service by making entries to its Ledgers to debit and credit the appropriate Accounts so as to make payment and deliver Securities between the parties to the Transaction. With respect to Transactions effected by CDS using the system, references in the Rules, Procedures and User Guides to a Participant effecting similar Transactions shall be deemed to include CDS, mutatis mutandis. If CDS makes use of the Services, it shall not effect a Settlement that would result in a negative balance in its Funds Account, unless a Line of Credit has been established for CDS that is committed in an amount equal to such negative balance. The foregoing limitation shall not apply to the Settlement of a Central Counterparty Obligation, of a replacement Trade for a Defaulter's Central Counterparty Obligation or of a buy-in Trade for a Central Counterparty Obligation. Notwithstanding its use of system functionality, CDS is not liable as a Participant pursuant to these Rules; in particular and without limiting the generality of the foregoing, CDS is not a Member of any Credit Ring, is not subject to the Debit Ring, is not obligated to make a contribution to a Fund, <del>or</del> to a Collateral Pool <u>or to the Supplemental Liquidity Fund</u>, is not subject to a System-Operating Cap, and does not make any of the representations or warranties of and is not subject to any of the liabilities of an ISIN Activator, Security Validator, Entitlements Processor or Custodian.</p>	<p><b>3.2. ACTION BY CDS</b></p> <p>CDS may use the system in order to facilitate the operation of the Services, to improve the Services offered to Participants or to reduce the risks or costs associated with providing the Services. Without limiting the generality of the foregoing, CDS maintains Ledgers for itself, including but not limited to the Collateral Administration Ledgers and Ledgers used to Settle Central Counterparty Obligations. Securities credited to a Securities Account, Collateral Account or Offer Account of CDS are held by CDS for its own benefit. CDS may effect Transactions for its own account through any Service by making entries to its Ledgers to debit and credit the appropriate Accounts so as to make payment and deliver Securities between the parties to the Transaction. With respect to Transactions effected by CDS using the system, references in the Rules, Procedures and User Guides to a Participant effecting similar Transactions shall be deemed to include CDS, mutatis mutandis. If CDS makes use of the Services, it shall not effect a Settlement that would result in a negative balance in its Funds Account, unless a Line of Credit has been established for CDS that is committed in an amount equal to such negative balance. The foregoing limitation shall not apply to the Settlement of a Central Counterparty Obligation, of a replacement Trade for a Defaulter's Central Counterparty Obligation or of a buy-in Trade for a Central Counterparty Obligation. Notwithstanding its use of system functionality, CDS is not liable as a Participant pursuant to these Rules; in particular and without limiting the generality of the foregoing, CDS is not a Member of any Credit Ring, is not subject to the Debit Ring, is not obligated to make a contribution to a Fund, to a Collateral Pool or to the Supplemental Liquidity Fund, is not subject to a System-Operating Cap, and does not make any of the representations or warranties of and is not subject to any of the liabilities of an ISIN Activator, Security Validator, Entitlements Processor or Custodian.</p>



## **5.1. RISK MANAGEMENT**

### **5.1.1 General Description**

CDS employs a variety of mechanisms to manage the risk of a default by a Participant in the Services. Such mechanisms include:

- (a) monitoring the status and activities of Participants;
- (b) the exercise of CDS's rights of retention and set off;
- (c) the taking of a security interest in collateral charged by Participants, including Specific Collateral, CCP Collateral, Cross-Border Specific Collateral, Settlement Service Collateral, Fund Contributions, [Supplemental Liquidity Contributions](#), Link Fund Contributions and Collateral Pool Contributions;
- (d) the use of Lines of Credit, Fund Credit Rings, Category Credit Rings and Link Fund Credit Rings to ensure payment of a suspended Participant's obligations;
- (e) the use of System-Operating Caps to establish limits on the Transactions that may be effected by a Participant;
- (f) the application of edits to each Transaction before it is Settled, including the Aggregate Collateral Value Edit to monitor the amount of collateral available to support the Participant's obligations; and
- (g) the collection and payment of Marks in respect of Central Counterparty Obligations.

### **5.1.4 Right of Retention and Right of Set Off**

CDS has the right to retain money standing to the credit of any Participant with CDS (including any amounts contributed as Funds Contributions, Collateral Pool Contributions, CCP Collateral, [Supplemental Liquidity Contributions](#) or Specific Collateral) or payable by CDS to the Participant ([including any interest, dividend or income received by CDS on the collateral of a Participant](#)) or in any Account maintained by CDS for the Participant (including any funds credited to its Funds Accounts, any funds credited to its Restricted Collateral Accounts, (subject to the right of the Pledgor to redeem such funds), and any funds reflected in its Pledge Accounts that were Pledged by it (to the extent of the Participant's beneficial interest therein)), in full or part payment of all obligations arising under the Rules that are due and payable by the Participant to CDS, whether such obligations arise from the Service in respect of which the money is held or

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- (b) the exercise of CDS's rights of retention and set off;
- (c) the taking of a security interest in collateral charged by Participants, including Specific Collateral, CCP Collateral, Cross-Border Specific Collateral, Settlement Service Collateral, Fund Contributions, Supplemental Liquidity Contributions, Link Fund Contributions and Collateral Pool Contributions;
- (d) the use of Lines of Credit, Fund Credit Rings, Category Credit Rings and Link Fund Credit Rings to ensure payment of a suspended Participant's obligations;
- (e) the use of System-Operating Caps to establish limits on the Transactions that may be effected by a Participant;
- (f) the application of edits to each Transaction before it is Settled, including the Aggregate Collateral Value Edit to monitor the amount of collateral available to support the Participant's obligations; and
- (g) the collection and payment of Marks in respect of Central Counterparty Obligations.

### **5.1.4 Right of Retention and Right of Set Off**

CDS has the right to retain money standing to the credit of any Participant with CDS (including any amounts contributed as Funds Contributions, Collateral Pool Contributions, CCP Collateral, Supplemental Liquidity Contributions or Specific Collateral) or payable by CDS to the Participant ([including any interest, dividend or income received by CDS on the collateral of a Participant](#)) or in any Account maintained by CDS for the Participant (including any funds credited to its Funds Accounts, any funds credited to its Restricted Collateral Accounts, (subject to the right of the Pledgor to redeem such funds), and any funds reflected in its Pledge Accounts that were Pledged by it (to the extent of the Participant's beneficial interest therein)), in full or part payment of all obligations arising under the Rules that are due and payable by the Participant to CDS, whether such obligations arise from the Service in respect of which the money is held or

for which the Account is maintained, or otherwise. CDS has the right to set off a positive Funds Account balance in any Ledger maintained by CDS for a Participant against a negative Funds Account balance in any Ledger maintained by CDS for that Participant or against any obligations arising under the Rules that are due and payable by the Participant to CDS. CDS may exercise its rights of retention and set off regardless of the currencies in which any money, obligation or Funds Account balance may be denominated.

#### **5.1.6. Role of Bank of Canada**

Bank of Canada is not subject to the restrictions set out in this Rule 5 and in particular Bank of Canada:

- (a) does not give to CDS any right of retention or set off;
- (b) does not use a Line of Credit ;
- (c) is not a Member of a Fund Credit Ring;
- (d) is not a Member of a Category Credit Ring;
- (e) does not make any Contribution to any Fund, ~~or~~ any Collateral Pool or to the Supplemental Liquidity Fund;
- (f) does not grant any security interest to CDS;
- (g) does not have a System-Operating Cap that limits its Transactions; and
- (h) is not required to satisfy the ACV edit.

#### **5.1.7. Role of TA Participant**

Notwithstanding the provisions of this Rule 5, a TA Participant:

- (a) does not grant nor use a Line of Credit;
- (b) is not a Member of a Fund Credit Ring;
- (c) is not a Member of a Category Credit Ring;
- (d) does not make any Contribution to any Fund, ~~or~~ any Collateral Pool or to the Supplemental Liquidity Fund;
- (e) does not grant any security interest to CDS;
- (f) does not have a System-Operating Cap that limits its Transactions; and
- (g) is not required to satisfy the ACV edit.

#### **5.1.8. Role of ATON Participant**

Notwithstanding the provisions of this Rule 5, an ATON Participant:

for which the Account is maintained, or otherwise. CDS has the right to set off a positive Funds Account balance in any Ledger maintained by CDS for a Participant against a negative Funds Account balance in any Ledger maintained by CDS for that Participant or against any obligations arising under the Rules that are due and payable by the Participant to CDS. CDS may exercise its rights of retention and set off regardless of the currencies in which any money, obligation or Funds Account balance may be denominated.

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- (b) does not use a Line of Credit ;
- (c) is not a Member of a Fund Credit Ring;
- (d) is not a Member of a Category Credit Ring;
- (e) does not make any Contribution to any Fund, any Collateral Pool or to the Supplemental Liquidity Fund;
- (f) does not grant any security interest to CDS;
- (g) does not have a System-Operating Cap that limits its Transactions; and
- (h) is not required to satisfy the ACV edit.

#### **5.1.7. Role of TA Participant**

Notwithstanding the provisions of this Rule 5, a TA Participant:

- (a) does not grant nor use a Line of Credit;
- (b) is not a Member of a Fund Credit Ring;
- (c) is not a Member of a Category Credit Ring;
- ((e) does not make any Contribution to any Fund, any Collateral Pool or to the Supplemental Liquidity Fund;
- (e) does not grant any security interest to CDS;
- (f) does not have a System-Operating Cap that limits its Transactions; and
- (g) is not required to satisfy the ACV edit.

#### **5.1.8. Role of ATON Participant**

Notwithstanding the provisions of this Rule 5, an ATON Participant:

<p>(a) does not grant nor use a Line of Credit;</p> <p>(b) is not a Member of a Fund Credit Ring;</p> <p>(c) is not a Member of a Category Credit Ring;</p> <p>(d) does not make any Contribution to any Fund, <del>or</del> <u>any Collateral Pool or to the Supplemental Liquidity Fund</u>;</p> <p>(e) does not grant any security interest to CDS;</p> <p>(f) does not have a System-Operating Cap that limits its Transactions; and</p> <p>(g) is not required to satisfy the ACV edit.</p> <p><b>5.1.9. Role of ACT Participant</b></p> <p>Notwithstanding the provisions of this Rule 5, an ACT Participant that is not also an ATON Participant or a TA Participant may not use CDSX and accordingly:</p> <p>(a) does not grant nor use a Line of Credit;</p> <p>(b) is not a Member of a Fund Credit Ring;</p> <p>(c) is not a Member of a Category Credit Ring;</p> <p>(d) does not make any Contribution to any Fund, <del>or</del> <u>any Collateral Pool or to the Supplemental Liquidity Fund</u>;</p> <p>(e) does not grant any security interest to CDS;</p> <p>(f) does not have a System-Operating Cap that limits its Transactions; and</p> <p>(g) is not required to satisfy the ACV edit.</p>	<p>(a) does not grant nor use a Line of Credit;</p> <p>(b) is not a Member of a Fund Credit Ring;</p> <p>(c) is not a Member of a Category Credit Ring;</p> <p>(e) does not make any Contribution to any Fund, any Collateral Pool or to the Supplemental Liquidity Fund;</p> <p>(e) does not grant any security interest to CDS;</p> <p>(f) does not have a System-Operating Cap that limits its Transactions; and</p> <p>(g) is not required to satisfy the ACV edit.</p> <p><b>5.1.9. Role of ACT Participant</b></p> <p>Notwithstanding the provisions of this Rule 5, an ACT Participant that is not also an ATON Participant or a TA Participant may not use CDSX and accordingly:</p> <p>(a) does not grant nor use a Line of Credit;</p> <p>(b) is not a Member of a Fund Credit Ring;</p> <p>(c) is not a Member of a Category Credit Ring;</p> <p>(d) does not make any Contribution to any Fund, any Collateral Pool or to the Supplemental Liquidity Fund;</p> <p>(e) does not grant any security interest to CDS;</p> <p>(f) does not have a System-Operating Cap that limits its Transactions; and</p> <p>(g) is not required to satisfy the ACV edit.</p>
<p><b>5.2. SECURITY INTERESTS</b></p> <p><b>5.2.1 Description of Security Interests</b></p> <p>As more particularly described in this Rule 5 and in Rule 10, each Participant creates security interests in a variety of collateral:</p> <p>(a) Line of Credit</p> <p>Each Participant who is a Debtor using a Line of Credit creates a security interest in favour of its Surety in its Settlement Services Collateral.</p> <p>(b) Fund and Link Fund</p> <p>Each Participant who is a Member of a Fund or a Link Fund creates a security interest in favour of CDS in the Contributions it makes to that Fund or Link Fund.</p> <p>(c) Collateral Pool</p> <p>Each Participant who is a Member of a Category Credit Ring with a Col-lateral Pool creates a security interest in favour of CDS (and, if the Participant is an Extender, in favour of the other</p>	<p><b>5.2. SECURITY INTERESTS</b></p> <p><b>5.2.1 Description of Security Interests</b></p> <p>As more particularly described in this Rule 5 and in Rule 10, each Participant creates security interests in a variety of collateral:</p> <p>(a) Line of Credit</p> <p>Each Participant who is a Debtor using a Line of Credit creates a security interest in favour of its Surety in its Settlement Services Collateral.</p> <p>(b) Fund and Link Fund</p> <p>Each Participant who is a Member of a Fund or a Link Fund creates a security interest in favour of CDS in the Contributions it makes to that Fund or Link Fund.</p> <p>(c) Collateral Pool</p> <p>Each Participant who is a Member of a Category Credit Ring with a Col-lateral Pool creates a security interest in favour of CDS (and, if the Participant is an Extender, in favour of the other</p>

Extenders) in the Contributions it makes to that Collateral Pool. Each Participant who is a Member of a Category Credit Ring creates a security interest in favour of CDS (and, if the Participant is an Extender, in favour of the other Extenders) in its Settlement Services Collateral.

(d) Specific Collateral, CCP Collateral, and Cross-Border Specific Collateral

Each Participant may from time to time create a security interest in Specific Collateral, CCP Collateral, or Cross-Border Specific Collateral in favour of CDS.

(e) [Supplemental Liquidity Fund](#)

[Each Participants making Supplemental Liquidity Contributions to the Supplemental Liquidity Fund creates a security interest in favour of CDS in these Supplemental Liquidity Contributions.](#)

### **5.2.2 CDS's Security Interests**

Pursuant to Rules 5.2.2, 5.2.3, 5.8.5, 5.11.2, [5.15.6](#) and 10.5.1 each Participant grants a security interest (the "CDS Security Interests") to CDS in, and pledges, charges and assigns to CDS, its Specific Collateral, CCP Collateral, Settlement Service Collateral, Fund Contributions, Collateral Pool Contributions, Category Credit Ring Collateral, [Supplemental Liquidity Contributions](#) and Cross-Border Collateral, and all dividends, interest, amounts due on maturity, principal repayments and all other entitlements and proceeds arising with respect to such collateral. While the grant of the security interest in the particular collateral is described under different Rules, each security interest in favour of CDS secures the due payment of all amounts due under the Rules from time to time to CDS from the Participant and the performance of all obligations of the Participant to CDS arising from time to time under the Rules. In addition, pursuant to Rule 5.11.2, to secure the due payment of all amounts due under Rule 5.11.1 to the Survivors of its Category Credit Ring in the event that it becomes a Defaulter, each Extender grants a security interest (the "Extenders' Security Interest") to CDS as the bare nominee of the other Extenders in, and pledges, charges and assigns to CDS as the bare nominee of the other Extenders, its Category Credit Ring Collateral. In addition, pursuant to Rule 5.6.2, to secure payment of its obligations pursuant to Rule 5.6.1, each Debtor grants a Surety Security Interest in all of its Settlement Service Collateral to each Surety who establishes a Line of Credit

Extenders) in the Contributions it makes to that Collateral Pool. Each Participant who is a Member of a Category Credit Ring creates a security interest in favour of CDS (and, if the Participant is an Extender, in favour of the other Extenders) in its Settlement Services Collateral.

(d) Specific Collateral, CCP Collateral, and Cross-Border Specific Collateral

Each Participant may from time to time create a security interest in Specific Collateral, CCP Collateral, or Cross-Border Specific Collateral in favour of CDS.

(e) Supplemental Liquidity Fund

Each Participants making Supplemental Liquidity Contributions to the Supplemental Liquidity Fund creates a security interest in favour of CDS in these Supplemental Liquidity Contributions.

### **5.2.2 CDS's Security Interests**

Pursuant to Rules 5.2.2, 5.2.3, 5.8.5, 5.11.2, 5.15.6 and 10.5.1 each Participant grants a security interest (the "CDS Security Interests") to CDS in, and pledges, charges and assigns to CDS, its Specific Collateral, CCP Collateral, Settlement Service Collateral, Fund Contributions, Collateral Pool Contributions, Category Credit Ring Collateral, Supplemental Liquidity Contributions and Cross-Border Collateral, and all dividends, interest, amounts due on maturity, principal repayments and all other entitlements and proceeds arising with respect to such collateral. While the grant of the security interest in the particular collateral is described under different Rules, each security interest in favour of CDS secures the due payment of all amounts due under the Rules from time to time to CDS from the Participant and the performance of all obligations of the Participant to CDS arising from time to time under the Rules. In addition, pursuant to Rule 5.11.2, to secure the due payment of all amounts due under Rule 5.11.1 to the Survivors of its Category Credit Ring in the event that it becomes a Defaulter, each Extender grants a security interest (the "Extenders' Security Interest") to CDS as the bare nominee of the other Extenders in, and pledges, charges and assigns to CDS as the bare nominee of the other Extenders, its Category Credit Ring Collateral. In addition, pursuant to Rule 5.6.2, to secure payment of its obligations pursuant to Rule 5.6.1, each Debtor grants a Surety Security Interest in all of its Settlement Service Collateral to each Surety who establishes a Line of Credit

<p>for it and to the other Members of that Surety's Category Credit Ring.</p> <p>Each Participant represents and warrants to CDS, to the other Members of each Fund of which it is a Member, and to the other Members of its Category Credit Ring or Rings, that it has full authority and power to grant such security interests to CDS, including any exemption or authorization that may be required pursuant to any statute or regulation binding on the Participant. Such security interests shall survive the suspension, termination or withdrawal of the Participant. Upon suspension of the Participant in the payment or performance of any obligation to CDS, CDS may realize upon the collateral charged pursuant to such security interests for such price and upon such terms as it deems best, without notice or other prior indication to the Participant.</p> <p>Collateral delivered to CDS by the Participant under all of the security interests is administered through the Collateral Administration Ledger of CDS used for that Participant. Other Participants may also have an interest in the collateral charged to CDS; the relative priorities in the collateral are defined in Rule 5.6.7, Rule 5.11.2 and Rule 5.11.4. The distribution of the collateral upon suspension of the Participant is set out in Rule 9.</p>	<p>for it and to the other Members of that Surety's Category Credit Ring.</p> <p>Each Participant represents and warrants to CDS, to the other Members of each Fund of which it is a Member, and to the other Members of its Category Credit Ring or Rings, that it has full authority and power to grant such security interests to CDS, including any exemption or authorization that may be required pursuant to any statute or regulation binding on the Participant. Such security interests shall survive the suspension, termination or withdrawal of the Participant. Upon suspension of the Participant in the payment or performance of any obligation to CDS, CDS may realize upon the collateral charged pursuant to such security interests for such price and upon such terms as it deems best, without notice or other prior indication to the Participant.</p> <p>Collateral delivered to CDS by the Participant under all of the security interests is administered through the Collateral Administration Ledger of CDS used for that Participant. Other Participants may also have an interest in the collateral charged to CDS; the relative priorities in the collateral are defined in Rule 5.6.7, Rule 5.11.2 and Rule 5.11.4. The distribution of the collateral upon suspension of the Participant is set out in Rule 9.</p>
<p><b>5.3. ADMINISTRATION OF COLLATERAL</b></p> <p><b>5.3.1 Form and Value of Collateral</b></p> <p><u>Subject to the provisions of the Procedures and User Guides,</u> <del>t</del>The collateral pledged by a Participant as Specific Collateral, CCP Collateral, Fund Contributions, <del>and</del> Collateral Pool Contributions <u>and Supplemental Liquidity Contributions</u> shall be:</p> <p>(a) those types of Securities that are eligible as collateral under Bank of Canada's standing loan facility, as such eligible Securities are published by Bank of Canada from time to time;</p> <p>(b) securities issued by the Government of the United States of America, including without limitation, bonds, treasury bills and notes, only for purposes of contributions to the Collateral Pool for RCP Receivers making US dollar Settlements and to the Participant Funds established for the New York Link Service;</p> <p>(c) cash contributions denominated in Canadian dollars; or</p>	<p><b>5.3. ADMINISTRATION OF COLLATERAL</b></p> <p><b>5.3.1 Form and Value of Collateral</b></p> <p>Subject to the provisions of the Procedures and User Guides, the collateral pledged by a Participant as Specific Collateral, CCP Collateral, Fund Contributions, Collateral Pool Contributions and Supplemental Liquidity Contributions shall be:</p> <p>(a) those types of Securities that are eligible as collateral under Bank of Canada's standing loan facility, as such eligible Securities are published by Bank of Canada from time to time;</p> <p>(b) securities issued by the Government of the United States of America, including without limitation, bonds, treasury bills and notes, only for purposes of contributions to the Collateral Pool for RCP Receivers making US dollar Settlements and to the Participant Funds established for the New York Link Service;</p> <p>(c) cash contributions denominated in Canadian dollars; or</p>

(d) cash contributions denominated in US dollars, only for purposes of contributions to the Collateral Pool for RCP Receivers making US dollar Settlements and to the Participant Funds established for the New York Link Service.

The Procedures and User Guides may specify additional eligibility criteria for such collateral. When permissible, the Participant shall have the right from time to time to substitute any eligible type of collateral. When applicable, the recognized value of collateral charged by a Participant as Specific Collateral, CCP Collateral, a Fund Contribution, or a Collateral Pool Contribution or a Supplemental Liquidity Contribution shall be the fair market value of the collateral as determined in accordance with the Procedures and User Guides, which shall set out any margin requirements that apply to a particular type of collateral. Such margin requirements may:

- (a) vary depending on the class of Securities;
- (b) value certain classes of Securities at zero;
- (c) limit the maximum value attributable to a certain class of Security;
- (d) restrict the value that can be attributed to Securities of any one Issuer or group of related Issuers;
- (e) apply different valuation procedures with respect to the same class of Security to any particular Participant (for example, by reason of a Participant's relationship to the Issuer of the Security or a Participant's role with respect to that Security);
- (f) apply different valuation procedures to a Security at different times (for example, at or prior to maturity); and
- (g) apply other factors described in the Procedures and User Guides.

### 5.3.2 Collateral Administration Ledgers

CDS maintains Collateral Administration Ledgers for the management and control of collateral held by it for the purposes of this Rule 5, including Specific Collateral, CCP Collateral, Fund Contributions, ~~and~~ Collateral Pool Contributions and Supplemental Liquidity Contributions, and, after suspension, Settlement Service Collateral. The Collateral Administration Ledgers shall be Ledgers maintained by CDS in its own name. A separate Collateral Administration Ledger is designated by CDS to be used for each Participant. Specific Collateral and CCP Collateral pledged by a Participant, and Fund

(d) cash contributions denominated in US dollars, only for purposes of contributions to the Collateral Pool for RCP Receivers making US dollar Settlements and to the Participant Funds established for the New York Link Service.

The Procedures and User Guides may specify additional eligibility criteria for such collateral. When permissible, the Participant shall have the right from time to time to substitute any eligible type of collateral. When applicable, the recognized value of collateral charged by a Participant as Specific Collateral, CCP Collateral, a Fund Contribution, a Collateral Pool Contribution or a Supplemental Liquidity Contribution shall be the fair market value of the collateral as determined in accordance with the Procedures and User Guides, which shall set out any margin requirements that apply to a particular type of collateral. Such margin requirements may:

- (a) vary depending on the class of Securities;
- (b) value certain classes of Securities at zero;
- (c) limit the maximum value attributable to a certain class of Security;
- (d) restrict the value that can be attributed to Securities of any one Issuer or group of related Issuers;
- (e) apply different valuation procedures with respect to the same class of Security to any particular Participant (for example, by reason of a Participant's relationship to the Issuer of the Security or a Participant's role with respect to that Security);
- (f) apply different valuation procedures to a Security at different times (for example, at or prior to maturity); and
- (g) apply other factors described in the Procedures and User Guides.

### 5.3.2 Collateral Administration Ledgers

CDS maintains Collateral Administration Ledgers for the management and control of collateral held by it for the purposes of this Rule 5, including Specific Collateral, CCP Collateral, Fund Contributions, Collateral Pool Contributions and Supplemental Liquidity Contributions, and, after suspension, Settlement Service Collateral. The Collateral Administration Ledgers shall be Ledgers maintained by CDS in its own name. A separate Collateral Administration Ledger is designated by CDS to be used for each Participant. Specific Collateral and CCP Collateral pledged by a Participant, and Fund

Contributions, ~~and~~ Collateral Pool Contributions and Supplemental Liquidity Contributions made by a Participant, shall be credited to the Collateral Administration Ledger used for that Participant. CDS shall designate a Collateral Administration Ledger to be maintained in the name of the Lead Extender pursuant to Rule (a) upon the suspension of a Member of the Extenders Credit Ring.

### 5.3.3 Centralized Administration of Collateral

A Participant grants a security interest in its Specific Collateral, in its Settlement Service Collateral, in its CCP Collateral, in its Contributions to each Fund of which it is a Member, ~~and~~ in its Contributions to each Collateral Pool for each Category Credit Ring of which it is a Member (other than the Non-Contributing Receivers Credit Ring) and in its Supplemental Liquidity Contributions. Each security interest is separately defined in individual Rules, including, without limitation, matters such as the calculation of the Contribution to be made, the obligation secured by the security interest, the attachment and release of the security interest, the persons to whom the security interest is granted, and the relative priority of the security interest in particular collateral. For convenience and efficient management, in the circumstances set out in the Procedures and User Guides, a Participant may make a single delivery of collateral to fulfill in whole or in part one or more of its obligations with respect to Specific Collateral, CCP Collateral, ~~or~~ Contributions to a Fund or Collateral Pool or Supplemental Liquidity Contributions. CDS may hold all such collateral in its Collateral Administration Ledger, as set out below, and may mingle in a single account the collateral charged by one Participant with that charged by other Participants, and may mingle the collateral charged by a Participant in respect of one security interest with any other collateral charged at any time by that Participant in respect of other security interests. CDS determines from time to time how the collateral charged by a Participant shall be attributed to any specific security interest. In the event that any collateral charged by a Participant is discovered to be a Defective Security or otherwise to have less market value than anticipated, such diminution in value of the collateral shall be attributed pro rata to any Specific Collateral charged by the Participant, to any CCP Collateral charged by the Participant, and to each Fund, Supplemental Liquidity Fund and Collateral Pool to which the

Contributions, Collateral Pool Contributions and Supplemental Liquidity Contributions made by a Participant, shall be credited to the Collateral Administration Ledger used for that Participant. CDS shall designate a Collateral Administration Ledger to be maintained in the name of the Lead Extender pursuant to Rule (a) upon the suspension of a Member of the Extenders Credit Ring.

### 5.3.3 Centralized Administration of Collateral

A Participant grants a security interest in its Specific Collateral, in its Settlement Service Collateral, in its CCP Collateral, in its Contributions to each Fund of which it is a Member, in its Contributions to each Collateral Pool for each Category Credit Ring of which it is a Member (other than the Non-Contributing Receivers Credit Ring) and in its Supplemental Liquidity Contributions. Each security interest is separately defined in individual Rules, including, without limitation, matters such as the calculation of the Contribution to be made, the obligation secured by the security interest, the attachment and release of the security interest, the persons to whom the security interest is granted, and the relative priority of the security interest in particular collateral. For convenience and efficient management, in the circumstances set out in the Procedures and User Guides, a Participant may make a single delivery of collateral to fulfill in whole or in part one or more of its obligations with respect to Specific Collateral, CCP Collateral, Contributions to a Fund or Collateral Pool or Supplemental Liquidity Contributions. CDS may hold all such collateral in its Collateral Administration Ledger, as set out below, and may mingle in a single account the collateral charged by one Participant with that charged by other Participants, and may mingle the collateral charged by a Participant in respect of one security interest with any other collateral charged at any time by that Participant in respect of other security interests. CDS determines from time to time how the collateral charged by a Participant shall be attributed to any specific security interest. In the event that any collateral charged by a Participant is discovered to be a Defective Security or otherwise to have less market value than anticipated, such diminution in value of the collateral shall be attributed pro rata to any Specific Collateral charged by the Participant, to any CCP Collateral charged by the Participant, and to each Fund, Supplemental Liquidity Fund and Collateral Pool to which the Participant was

Notice and Request for Comment – Material Amendments to CDS Participant Rules related to Liquidity and Cash Collateral Management

Participant was required to contribute, in the proportion which the amount of the collateral required for that purpose is of all required collateral. Upon suspension of a Participant, the col-lateral charged by it is dealt with in accordance with Rule 9. All collateral is held by CDS on the following basis:

(a) Specific Collateral and CCP Collateral

Specific Collateral and CCP Collateral shall be credited to CDS's Collateral Administration Ledgers to be held by CDS for its own benefit exclusively.

(b) Fund Contributions

Fund Contributions shall be credited to CDS's Collateral Administration Ledgers to be held by CDS for its own benefit exclusively.

(c) Collateral Pool Contributions

In the case of the Federated Participants, Settlement Agents and RCP Receivers, Collateral Pool Contributions shall be credited to CDS's Col-lateral Administration Ledgers to be held by CDS for its own benefit exclusively. In the case of the Extenders, Collateral Pool Contributions shall be credited to CDS's Collateral Administration Ledgers to be held by CDS for its own benefit and as the bare nominee of the Extenders other than the Extender for whom the Ledger is used.

(d) Settlement Service Collateral

Upon suspension of a Federated Participant, Settlement Agent or Receiver, CDS shall transfer the Settlement Service Collateral of the Defaulter to the Collateral Administration Ledger of CDS used for that Participant to be held by CDS for its own benefit, subject to the interest of any Surety of the Defaulter in such Settlement Service Collateral. Upon suspension of an Extender, CDS shall transfer the Settlement Service Col-lateral of the Defaulter to the Collateral Administration Ledger used for that Extender to be held by CDS for its own benefit and as bare nominee of the other Extenders, subject to the interest of any Surety of the Defaulter in such Settlement Service Collateral.

(e) Supplemental Liquidity Contributions

Supplemental Liquidity Contributions shall be credited to CDS's Collateral Administration Ledgers to be held by CDS for its own benefit exclusively.

required to contribute, in the proportion which the amount of the collateral required for that purpose is of all required collateral. Upon suspension of a Participant, the col-lateral charged by it is dealt with in accordance with Rule 9. All collateral is held by CDS on the following basis:

(a) Specific Collateral and CCP Collateral

Specific Collateral and CCP Collateral shall be credited to CDS's Collateral Administration Ledgers to be held by CDS for its own benefit exclusively.

(b) Fund Contributions

Fund Contributions shall be credited to CDS's Collateral Administration Ledgers to be held by CDS for its own benefit exclusively.

(c) Collateral Pool Contributions

In the case of the Federated Participants, Settlement Agents and RCP Receivers, Collateral Pool Contributions shall be credited to CDS's Col-lateral Administration Ledgers to be held by CDS for its own benefit exclusively. In the case of the Extenders, Collateral Pool Contributions shall be credited to CDS's Collateral Administration Ledgers to be held by CDS for its own benefit and as the bare nominee of the Extenders other than the Extender for whom the Ledger is used.

(d) Settlement Service Collateral

Upon suspension of a Federated Participant, Settlement Agent or Receiver, CDS shall transfer the Settlement Service Collateral of the Defaulter to the Collateral Administration Ledger of CDS used for that Participant to be held by CDS for its own benefit, subject to the interest of any Surety of the Defaulter in such Settlement Service Collateral. Upon suspension of an Extender, CDS shall transfer the Settlement Service Col-lateral of the Defaulter to the Collateral Administration Ledger used for that Extender to be held by CDS for its own benefit and as bare nominee of the other Extenders, subject to the interest of any Surety of the Defaulter in such Settlement Service Collateral.

(e) Supplemental Liquidity Contributions

Supplemental Liquidity Contributions shall be credited to CDS's Collateral Administration Ledgers to be held by CDS for its own benefit exclusively.



### 5.3.5. Pledge of Collateral

Collateral pledged to CDS may be delivered to CDS:

- (a) by the Settlement of a Transaction by which Securities or funds are delivered from the Ledger of the pledging Participant to the Collateral Administration Ledger of CDS used for the pledging Participant;
- (b) by the deposit of the Securities, [funds or money](#) by the pledging Participant for credit to the Collateral Administration Ledger of CDS used for the pledging Participant;
- (c) by the delivery pursuant to Rule 9.3 to the Collateral Administration Ledger of CDS used for the pledging Participant of its share of a Defaulter's Settlement Service Collateral and partial payment; or
- (d) by any other method permitted by CDS from time to time.

Regardless of the means of delivery, the Securities and funds credited to a Collateral Administration Ledger shall be considered to have been delivered to CDS pursuant to the pledge of collateral set out in this Rule 5 and shall be dealt with without reference to the Participant who made the pledge or to any Person claiming through it or as its successor or representative. Funds credited to a Collateral Administration Ledger are a financial asset held by CDS pursuant to the pledge of collateral by the Participant who made the pledge.

### 5.3.6. Custody of Collateral

In exercising any of the powers conferred by this Rule 5.3, CDS shall take reasonable care in what it, in good faith, considers to be necessary to protect the interests of CDS and to be in the best interest of all Participants other than a Defaulter. CDS shall not be the agent, trustee or fiduciary (i) for a Participant in respect of its own Specific Collateral, CCP Collateral, Fund Contributions, [Supplemental Liquidity Contributions](#), Collateral Pool Contributions or Settlement Service Collateral, nor (ii) for any other Category Credit Ring Member (except to the extent that it acts as the bare nominee of the Survivors of a suspended Extender) in respect of its interest in the Category Credit Ring Collateral of a Defaulter. Collateral in the form of money shall be held by CDS in accordance with this Rule 5.3 and need not be applied to reduce any obligation of the Participant to CDS. CDS may invest Specific Collateral, CCP Collateral, Fund Contributions, [Supplemental](#)

### 5.3.5. Pledge of Collateral

Collateral pledged to CDS may be delivered to CDS:

- (a) by the Settlement of a Transaction by which Securities or funds are delivered from the Ledger of the pledging Participant to the Collateral Administration Ledger of CDS used for the pledging Participant;
- (b) by the deposit of the Securities, funds or money by the pledging Participant for credit to the Collateral Administration Ledger of CDS used for the pledging Participant;
- (c) by the delivery pursuant to Rule 9.3 to the Collateral Administration Ledger of CDS used for the pledging Participant of its share of a Defaulter's Settlement Service Collateral and partial payment; or
- (d) by any other method permitted by CDS from time to time.

Regardless of the means of delivery, the Securities and funds credited to a Collateral Administration Ledger shall be considered to have been delivered to CDS pursuant to the pledge of collateral set out in this Rule 5 and shall be dealt with without reference to the Participant who made the pledge or to any Person claiming through it or as its successor or representative. Funds credited to a Collateral Administration Ledger are a financial asset held by CDS pursuant to the pledge of collateral by the Participant who made the pledge.

### 5.3.6. Custody of Collateral

In exercising any of the powers conferred by this Rule 5.3, CDS shall take reasonable care in what it, in good faith, considers to be necessary to protect the interests of CDS and to be in the best interest of all Participants other than a Defaulter. CDS shall not be the agent, trustee or fiduciary (i) for a Participant in respect of its own Specific Collateral, CCP Collateral, Fund Contributions, [Supplemental Liquidity Contributions](#), Col-lateral Pool Contributions or Settlement Service Collateral, nor (ii) for any other Category Credit Ring Member (except to the extent that it acts as the bare nominee of the Survivors of a suspended Extender) in respect of its interest in the Category Credit Ring Collateral of a Defaulter. Collateral in the form of money shall be held by CDS in accordance with this Rule 5.3 and need not be applied to reduce any obligation of the Participant to CDS. CDS may invest Specific Collateral, CCP Collateral, Fund Contributions, [Supplemental](#)

<p><u>Liquidity Contributions</u>, or Collateral Pool Contributions in a reasonable and prudent manner, acting in the best interests of all Participants. CDS shall segregate any such collateral from its own money and shall make use of such collateral only for the purposes of this Rule 5. The net amount of any interest, dividend or income received by CDS on the collateral of a Participant (other than minimum cash contributions) shall be distributed to the Participant in accordance with the Procedures, provided the Participant's obligations to CDS have been fulfilled. In exercising any of the foregoing powers, CDS shall take reasonable care in what it, in good faith, considers to be necessary to protect the interests of CDS and to be in the best interest of all Participants making use of the Services.</p> <p><b>5.3.7 Assignment of Collateral by CDS</b></p> <p>CDS may, in favour of any Person, assign, transfer, pledge, charge or otherwise create a security interest in:</p> <p>(a) any Specific Collateral, CCP Collateral, Settlement Service Collateral, Fund Contribution, Collateral Pool Contribution, <u>Supplemental Liquidity Contributions</u> or Category Credit Ring Collateral,</p> <p>(b) any investments made by CDS of such collateral, and</p> <p>(c) any right, title or interest it may have arising under this Rule 5,</p> <p>for the purpose of securing</p> <p>(a) any obligations of CDS with respect to any Service;</p> <p>(b) any loan made to CDS incurred for the purposes of any Service,</p> <p>(c) any indebtedness of CDS incurred for the purposes of any Service,</p> <p>provided that such Person shall not be entitled to realize on such collateral except in circumstances in which CDS would be entitled to do so pursuant to the Rules.</p>	<p>Liquidity Contributions, or Collateral Pool Contributions in a reasonable and prudent manner, acting in the best interests of all Participants. CDS shall segregate any such collateral from its own money and shall make use of such collateral only for the purposes of this Rule 5. The net amount of any interest, dividend or income received by CDS on the collateral of a Participant (other than minimum cash contributions) shall be distributed to the Participant in accordance with the Procedures, provided the Participant's obligations to CDS have been fulfilled. In exercising any of the foregoing powers, CDS shall take reasonable care in what it, in good faith, considers to be necessary to protect the interests of CDS and to be in the best interest of all Participants making use of the Services.</p> <p><b>5.3.7 Assignment of Collateral by CDS</b></p> <p>CDS may, in favour of any Person, assign, transfer, pledge, charge or otherwise create a security interest in:</p> <p>(a) any Specific Collateral, CCP Collateral, Settlement Service Collateral, Fund Contribution, Collateral Pool Contribution, Supplemental Liquidity Contributions or Category Credit Ring Collateral,</p> <p>(b) any investments made by CDS of such collateral, and</p> <p>(c) any right, title or interest it may have arising under this Rule 5,</p> <p>for the purpose of securing</p> <p>(a) any obligations of CDS with respect to any Service;</p> <p>(b) any loan made to CDS incurred for the purposes of any Service,</p> <p>(c) any indebtedness of CDS incurred for the purposes of any Service,</p> <p>provided that such Person shall not be entitled to realize on such collateral except in circumstances in which CDS would be entitled to do so pursuant to the Rules.</p>
<p><b>5.4. LINES OF CREDIT</b></p> <p><b>5.4.2 Establishment of Lines of Credit</b></p> <p>A Surety may establish a Line of Credit for one or more Debtors. One or more Sureties may establish Lines of Credit for a Debtor. The Procedures and User Guides may pro-vide for</p>	<p><b>5.4. LINES OF CREDIT</b></p> <p><b>5.4.2 Establishment of Lines of Credit</b></p> <p>A Surety may establish a Line of Credit for one or more Debtors. One or more Sureties may establish Lines of Credit for a Debtor. The Procedures and User Guides may pro-vide for different categories of Lines of Credit, which shall have the attributes</p>

<p>different categories of Lines of Credit, which shall have the attributes set out in the Procedures and User Guides. Each Line of Credit shall be established in accordance with the Procedures and User Guides for use with respect to a specified Ledger of the Debtor. On each Business Day, each established Line of Credit must be authorized for use up to a specified amount by the Surety and confirmed by the Debtor before any amount may be used under that Line of Credit. A Surety may give advance or standing instructions for the authorization of a Line of Credit, in which event no confirmation of the Line is required on any Business Day subsequent to the initial confirmation by the Debtor. The Surety shall set the amount authorized under each Line of Credit in accordance with the Procedures and User Guides.</p>	<p>set out in the Procedures and User Guides. Each Line of Credit shall be established in accordance with the Procedures and User Guides for use with respect to a specified Ledger of the Debtor. On each Business Day, each established Line of Credit must be authorized for use up to a specified amount by the Surety and confirmed by the Debtor before any amount may be used under that Line of Credit. A Surety may give advance or standing instructions for the authorization of a Line of Credit, in which event no confirmation of the Line is required on any Business Day subsequent to the initial confirmation by the Debtor. The Surety shall set the amount authorized under each Line of Credit in accordance with the Procedures and User Guides.</p>
<p><b>5.8. FUNDS SECURITY INTERESTS</b></p> <p><b>5.8.2 Additional Fund Contribution</b></p> <p>CDS shall from time to time inform each Participant who is a Member of a Fund of the amount of the Contribution it is required to make to the Fund. A Participant shall deliver its required additional Fund Contribution upon being informed by CDS that</p> <p>(a) an increase in the amount of its Fund Contribution is required pursuant to Rule 5.8.1;</p> <p>(b) <u>when applicable</u>, an additional Fund Contribution is required due to a decrease in the recognized value of Securities previously delivered by the Participant as Fund Contributions;</p> <p>(c) an additional Fund Contribution is required to reconstitute the Fund pursuant to Rule 9.2.10 following the suspension of another Member of that Fund; or,</p> <p>(d) an additional Fund Contribution is required pursuant to Rule 5.8.6.</p> <p><b>5.8.5 Security Interest in Fund Contributions</b></p> <p>To secure the due payment of all amounts due under the Rules from time to time to CDS from the Participant and the performance of all obligations of the Participant to CDS arising from time to time under the Rules, each Participant grants to CDS a security interest in, and pledges, charges and assigns to CDS, all Fund Contributions made by the Participant to any Fund, including all money and Securities contributed to the Fund, <u>as the case may be</u>, and</p>	<p><b>5.8. FUNDS SECURITY INTERESTS</b></p> <p><b>5.8.2 Additional Fund Contribution</b></p> <p>CDS shall from time to time inform each Participant who is a Member of a Fund of the amount of the Contribution it is required to make to the Fund. A Participant shall deliver its required additional Fund Contribution upon being informed by CDS that</p> <p>(a) an increase in the amount of its Fund Contribution is required pursuant to Rule 5.8.1;</p> <p>(b) when applicable, an additional Fund Contribution is required due to a decrease in the recognized value of Securities previously delivered by the Participant as Fund Contributions;</p> <p>(c) an additional Fund Contribution is required to reconstitute the Fund pursuant to Rule 9.2.10 following the suspension of another Member of that Fund; or,</p> <p>(d) an additional Fund Contribution is required pursuant to Rule 5.8.6.</p> <p><b>5.8.5 Security Interest in Fund Contributions</b></p> <p>To secure the due payment of all amounts due under the Rules from time to time to CDS from the Participant and the performance of all obligations of the Participant to CDS arising from time to time under the Rules, each Participant grants to CDS a security interest in, and pledges, charges and assigns to CDS, all Fund Contributions made by the Participant to any Fund, including all money and Securities contributed to the Fund, as the case may be, and all dividends, interest, amounts due on maturity, principal repayments and all other</p>

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<p>all dividends, interest, amounts due on maturity, principal repayments and all other entitlements and proceeds arising with respect to such Fund Contributions.</p>	<p>entitlements and proceeds arising with respect to such Fund Contributions</p>
<p><b><u>5.15. SUPPLEMENTAL LIQUIDITY FUND</u></b>  <b><u>5.15.1 Establishment of Supplemental Liquidity Funds</u></b>  <u>Each Participant who uses the CNS Function shall make and maintain a contribution to the Supplemental Liquidity Fund (“Supplemental Liquidity Contribution”). All Participants to CNS (other than Bank of Canada, TA Participants, ATON Participants and ACT Participants) must provide Supplemental Liquidity Contributions to the Supplemental Liquidity Fund.</u></p> <p><b><u>5.15.2 Determination of the Supplemental Liquidity Contribution</u></b>  <u>A Participant's Supplemental Liquidity Contribution shall be determined at the discretion of CDS, acting reasonably, in accordance with the formula and criteria specified in the Procedures and User Guides. The Supplemental Liquidity Contribution may be increased or reduced from time to time by CDS in accordance with the aforementioned formulas or criteria.</u></p> <p><u>In accordance with the Procedures and User Guides, CDS shall from time to time inform each Participant of the amount of the Supplemental Liquidity Contribution each Participant is required to make to the Supplemental Liquidity Fund. A Participant shall deliver its required additional Supplemental Liquidity Contribution upon being in-formed by CDS that an increase in the amount of its Supplemental Liquidity Contribution is required pursuant to this Rule 5.15.2</u></p> <p><b><u>5.15.3 Continuing Obligation</u></b>  <u>The obligation of a Participant to contribute to the Supplemental Liquidity Fund pursuant to this Rule 5.15 is a continuing obligation and is not discharged in whole or in part by, and each Participant shall make the Supplemental Liquidity Contribution as required by Rule 5.15.2 without regard to:</u></p> <p><u>(a) any Supplemental Liquidity Contribution made by any other Participant;</u>  <u>(b) the suspension, termination or withdrawal of any Participant; or</u>  <u>(c) any defences, claims, counterclaims, statutory or contractual rights of set-off or rights</u></p>	<p><b>5.15. SUPPLEMENTAL LIQUIDITY FUND</b>  <b>5.15.1 Establishment of Supplemental Liquidity Funds</b>  Each Participant who uses the CNS Function shall make and maintain a contribution to the Supplemental Liquidity Fund (“Supplemental Liquidity Contribution”). All Participants to CNS (other than Bank of Canada, TA Participants, ATON Participants and ACT Participants) must provide Supplemental Liquidity Contributions to the Supplemental Liquidity Fund.</p> <p><b>5.15.2 Determination of the Supplemental Liquidity Contribution</b>  A Participant's Supplemental Liquidity Contribution shall be determined at the discretion of CDS, acting reasonably, in accordance with the formula and criteria specified in the Procedures and User Guides. The Supplemental Liquidity Contribution may be increased or reduced from time to time by CDS in accordance with the aforementioned formulas or criteria.</p> <p>In accordance with the Procedures and User Guides, CDS shall from time to time inform each Participant of the amount of the Supplemental Liquidity Contribution each Participant is required to make to the Supplemental Liquidity Fund. A Participant shall deliver its required additional Supplemental Liquidity Contribution upon being in-formed by CDS that an increase in the amount of its Supplemental Liquidity Contribution is required pursuant to this Rule 5.15.2</p> <p><b>5.15.3 Continuing Obligation</b>  The obligation of a Participant to contribute to the Supplemental Liquidity Fund pursuant to this Rule 5.15 is a continuing obligation and is not discharged in whole or in part by, and each Participant shall make the Supplemental Liquidity Contribution as required by Rule 5.15.2 without regard to:</p> <p>(a) any Supplemental Liquidity Contribution made by any other Participant;  (b) the suspension, termination or withdrawal of any Participant; or  (c) any defences, claims, counterclaims, statutory or contractual rights of set-off or rights</p>

of offset arising between any Participant and CDS.

**5.15.4 Excess Supplemental Liquidity Contribution**

Periodically, in accordance with the Procedures, CDS shall inform each Participant of the Supplemental Liquidity Contribution which such Participant is required to contribute to each Fund. A Participant may request the refund of any excess Supplemental Liquidity Contribution made by it, to the extent of such excess.

**5.15.5 Refund of Supplemental Liquidity Contribution**

CDS shall return the Participant's Supplemental Liquidity Contribution at such time as the Participant ceases to use the CNS Function, or ceases to be a Participant, provided that: (i) the Participant has satisfied all of its obligations to CDS, and (ii) there has been no suspension of another Participant.

**5.15.6 Security Interest in Supplemental Liquidity Contribution**

To secure the payment of all amounts due under the Rules from time to time to CDS from the Participant, and the performance of all obligations of the Participant to CDS arising from time to time under the Rules, each Participant grants to CDS a security interest in, and pledges, charges, and assigns to CDS, all Supplemental Liquidity Contributions made by the Participant to the Supplemental Liquidity Fund, including all money, interest, amounts due on maturity, principal repayments, and all other entitlements and proceeds arising with respect to such Supplemental Liquidity Contributions.

**5.15.7 Additional Supplemental Liquidity Contribution**

In addition to a Participant's Supplemental Liquidity Contribution calculated in accordance with Rule 5.15.2, from time to time, forthwith at the request of CDS, a Participant shall provide additional Supplemental Liquidity Contributions, the amount of such additional Supplemental Liquidity Contributions being the amount that CDS determines in its absolute discretion, acting reasonably, in accordance with the formula and criteria specified in the Procedures and User Guides. At the request of the Participant, CDS shall release any addition Supplemental Liquidity Contribution if CDS determines, in its discretion, that such additional Supplemental Liquidity Contributions is not required.

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**5.15.4 Excess Supplemental Liquidity Contribution**

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**5.15.5 Refund of Supplemental Liquidity Contribution**

CDS shall return the Participant's Supplemental Liquidity Contribution at such time as the Participant ceases to use the CNS Function, or ceases to be a Participant, provided that: (i) the Participant has satisfied all of its obligations to CDS, and (ii) there has been no suspension of another Participant.

**5.15.6 Security Interest in Supplemental Liquidity Contribution**

To secure the payment of all amounts due under the Rules from time to time to CDS from the Participant, and the performance of all obligations of the Participant to CDS arising from time to time under the Rules, each Participant grants to CDS a security interest in, and pledges, charges, and assigns to CDS, all Supplemental Liquidity Contributions made by the Participant to the Supplemental Liquidity Fund, including all money, dividends, interest, amounts due on maturity, principal repayments, and all other entitlements and proceeds arising with respect to such Supplemental Liquidity Contributions.

**5.15.7 Additional Supplemental Liquidity Contribution**

In addition to a Participant's Supplemental Liquidity Contribution calculated in accordance with Rule 5.15.2, from time to time, forthwith at the request of CDS, a Participant shall provide additional Supplemental Liquidity Contributions, the amount of such additional Supplemental Liquidity Contributions being the amount that CDS determines in its absolute discretion, acting reasonably, in accordance with the formula and criteria specified in the Procedures and User Guides. At the request of the Participant, CDS shall release any addition Supplemental Liquidity Contribution if CDS determines, in its discretion, that such additional Supplemental Liquidity Contributions is not required.

**5.15.8 Holding of Excess Supplemental Liquidity Contribution**

A Participant may choose not to request the return of any excess Supplemental Liquidity Contributions made by such Participant. In that event, such excess shall not be subject to the security interest created by Rule 5.15.6, but shall be refunded to the Participant at its request in accordance with Rule 5.15.4. Increased Supplemental Liquidity Contributions required pursuant to Rule 5.15 are not excess Supplemental Liquidity Contributions.

**5.15.9 Actions by CDS**

The liability of a Participant pursuant to this Rule 5.15 shall not be affected by any act or failure to act of CDS. Without limiting the generality of the foregoing:

(a) CDS may grant time, renewals, extensions, indulgences, releases and discharges to a Participant or to anyone else; may accept compositions from or otherwise deal with a Participant or anyone else; may take, or abstain from taking or perfecting, any security interests, and may vary, exchange, renew, discharge, give up, realize on or otherwise deal with such security interests; and may apply all payment received from a Participant or anyone else, or from the realization of any security interest, upon such part of a Participant liability as it may see fit, and may change any such application from time to time;

(b) CDS shall not be bound to exhaust its recourse against a Participant or anyone else, or to realize any security interest or guaranty CDS may have, before being entitled to payment from that Participant;

(c) any change in the name of a Participant; or (if a partnership) any change in the membership of the Participant by death or by the retirement of one or more of the partners or by the introduction of one or more other partners; or any change in the objects, capital structure or constitution of the Participant (if a corporation); or any sale of all or part of the business of the Participant; or any amalgamation of the Participant with another corporation or corporations, shall not affect the liability of the Participant; and,

(d) if a Participant declares, or is put into, bankruptcy, or if a receiver or receiver and manager is appointed of any part of the property of the Participant or if any encumbrancer takes possession of any part of the property of the

**5.15.8 Holding of Excess Supplemental Liquidity Contribution**

A Participant may choose not to request the return of any excess Supplemental Liquidity Contributions made by such Participant. In that event, such excess shall not be subject to the security interest created by Rule 5.15.6, but shall be refunded to the Participant at its request in accordance with Rule 5.15.4. Increased Supplemental Liquidity Contributions required pursuant to this Rule 5.15 are not excess Supplemental Liquidity Contributions.

**5.15.9 Actions by CDS**

The liability of a Participant pursuant to this Rule 5.15 shall not be affected by any act or failure to act of CDS. Without limiting the generality of the foregoing:

(a) CDS may grant time, renewals, extensions, indulgences, releases and discharges to a Participant or to anyone else; may accept compositions from or otherwise deal with a Participant or anyone else; may take, or abstain from taking or perfecting, any security interests, and may vary, exchange, renew, discharge, give up, realize on or otherwise deal with such security interests; and may apply all payment received from a Participant or anyone else, or from the realization of any security interest, upon such part of a Participant liability as it may see fit, and may change any such application from time to time;

(b) CDS shall not be bound to exhaust its recourse against a Participant or anyone else, or to realize any security interest or guaranty CDS may have, before being entitled to payment from that Participant;

(c) any change in the name of a Participant; or (if a partnership) any change in the membership of the Participant by death or by the retirement of one or more of the partners or by the introduction of one or more other partners; or any change in the objects, capital structure or constitution of the Participant (if a corporation); or any sale of all or part of the business of the Participant; or any amalgamation of the Participant with another corporation or corporations, shall not affect the liability of the Participant; and,

(d) if a Participant declares, or is put into, bankruptcy, or if a receiver or receiver and manager is appointed of any part of the property of the Participant or if any encumbrancer takes possession of any part of the property of the

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<p><u>Participant or if the Participant makes any proposal or proposes any compromise or arrangement to it, the liability of the Participant shall not be affected.</u></p>	<p>Participant or if the Participant makes any proposal or proposes any compromise or arrangement to it, the liability of the Participant shall not be affected.</p>
<p><b>9.1. GROUNDS FOR SUSPENSION</b> <b>9.1.2 Discretionary Suspension</b></p> <p>CDS shall suspend a Participant if it determines, in good faith, on the evidence reasonably available to it, that the Participant is in such financial or operating condition that its continuation as a Participant would cause material disruption to the Services or would jeopardize the interests of CDS or other Participants. In exercising its discretion whether or not to suspend a Participant, CDS may consider any information it considers relevant, including the occurrence of any of the following events:</p> <p>(i) the Participant fails to make a required payment in full at CDSX Payment Exchange or Link Payment Exchange;</p> <p>(ii) the Participant fails to provide Specific Collateral, CCP Collateral or Cross-Border Specific Collateral;</p> <p>(iii) the Participant fails to make its required Contribution to a Fund, a Collateral Pool or a Link Fund;</p> <p><u>(iv) the Participant fails to make its required Supplemental Liquidity Contribution to the Supplemental Liquidity Fund;</u></p> <p><del>(iv)</del>(v) the Participant fails to pay its obligation to CDS as a Surety pursuant to a Line of Credit;</p> <p><del>(v)</del>(vi) the Participant fails to pay its proportionate share, as a Member of a Fund Credit Ring, Category Credit Ring or Link Fund Credit Ring, of the obligation of another Member of that Credit Ring;</p> <p><del>(vi)</del>(vii) the Participant ceases to be eligible for participation in CDS or to satisfy the qualifications or standards set by the Rules;</p> <p><del>(vii)</del>(viii) the Participant commits a breach of the provisions of the Legal Documents that CDS in its discretion considers to be a material breach;</p> <p><del>(viii)</del>(ix) the Participant fails to Settle a Central Counterparty Obligation as and when required; or</p> <p><del>(ix)</del>(x) the registration or licence of the Participant has been cancelled or suspended by a Regulatory Body, the membership of the Participant in a Regulatory Body that is a self-regulatory organization has been suspended or terminated, a Regulatory Body has taken steps to</p>	<p><b>9.1. GROUNDS FOR SUSPENSION</b> <b>9.1.2 Discretionary Suspension</b></p> <p>CDS shall suspend a Participant if it determines, in good faith, on the evidence reasonably available to it, that the Participant is in such financial or operating condition that its continuation as a Participant would cause material disruption to the Services or would jeopardize the interests of CDS or other Participants. In exercising its discretion whether or not to suspend a Participant, CDS may consider any information it considers relevant, including the occurrence of any of the following events:</p> <p>(i) the Participant fails to make a required payment in full at CDSX Payment Exchange or Link Payment Exchange;</p> <p>(ii) the Participant fails to provide Specific Collateral, CCP Collateral or Cross-Border Specific Collateral;</p> <p>(iii) the Participant fails to make its required Contribution to a Fund, a Collateral Pool or a Link Fund;</p> <p>(iv) the Participant fails to make its required Supplemental Liquidity Contribution to the Supplemental Liquidity Fund;</p> <p>(v) the Participant fails to pay its obligation to CDS as a Surety pursuant to a Line of Credit;</p> <p>(vi) the Participant fails to pay its proportionate share, as a Member of a Fund Credit Ring, Category Credit Ring or Link Fund Credit Ring, of the obligation of another Member of that Credit Ring;</p> <p>(vii) the Participant ceases to be eligible for participation in CDS or to satisfy the qualifications or standards set by the Rules;</p> <p>(viii) the Participant commits a breach of the provisions of the Legal Documents that CDS in its discretion considers to be a material breach;</p> <p>(ix) the Participant fails to Settle a Central Counterparty Obligation as and when required; or</p> <p>(x) the registration or licence of the Participant has been cancelled or suspended by a Regulatory Body, the membership of the Participant in a Regulatory Body that is a self-regulatory organization has been suspended or terminated, a Regulatory Body has taken steps to</p>

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<p>re structure the Participant, or a receiver or trustee has been appointed with respect to the Participant or its assets.</p> <p>Where a Participant is subject to Resolution and the Participant continues to meet its obligations to CDS, to the satisfaction of CDS, CDS may permit the Participant to have continued access to some or all CDS Services, Functions and system functionality in accordance with applicable Rules, Procedures, User Guides and agreements.</p>	<p>re structure the Participant, or a receiver or trustee has been appointed with respect to the Participant or its assets.</p> <p>Where a Participant is subject to Resolution and the Participant continues to meet its obligations to CDS, to the satisfaction of CDS, CDS may permit the Participant to have continued access to some or all CDS Services, Functions and system functionality in accordance with applicable Rules, Procedures, User Guides and agreements.</p>
<p><b>9.3. COLLATERAL</b></p> <p><b>9.3.1 Collateral of Suspended Participant</b></p> <p>(a) Collateral Administration Ledger</p> <p>Upon the suspension of a Participant, the Settlement Service Collateral of the suspended Participant shall be transferred from its Risk Accounts to a Collateral Administration Ledger of CDS without any instructions from or consent by the suspended Participant. Immediately upon the sus-pension of a Participant, all of its Collateral is held in the Collateral Ad-ministration Ledger.</p> <p>(b) Specific Collateral and CCP Collateral</p> <p>The suspended Participant’s Specific Collateral and CCP Collateral shall be realized by CDS and the net proceeds applied in accordance with Rule 9.3.13.</p> <p>(c) Settlement Service Collateral</p> <p>If the suspended Participant is not a Receiver, its Settlement Service Col-lateral is transferred to the Other Members of its Category Credit Ring who are required to make payment to CDS, or, if there are no such Other Members, then to its Sureties. The transfer is made either upon receiving payment from the Sureties and Survivors or in order to enable the Sure-ties and Other Members to make such payment. If the suspended Participant is a Receiver (whether an RCP Receiver or a Non-Contributing Receiver), its Settlement Service Collateral is transferred to its Sureties and CDS in accordance with Rule 5.6.7. CDS shall transfer Settlement Service Collateral without any instructions from or consent by the suspended Participant. If there is no such Surety, then CDS will provide for immediate payment of the amounts owing by the suspended Participant by means of an advance</p>	<p><b>9.3. COLLATERAL</b></p> <p><b>9.3.1 Collateral of Suspended Participant</b></p> <p>(a) Collateral Administration Ledger</p> <p>Upon the suspension of a Participant, the Settlement Service Collateral of the suspended Participant shall be transferred from its Risk Accounts to a Collateral Administration Ledger of CDS without any instructions from or consent by the suspended Participant. Immediately upon the sus-pension of a Participant, all of its Collateral is held in the Collateral Ad-ministration Ledger.</p> <p>(b) Specific Collateral and CCP Collateral</p> <p>The suspended Participant’s Specific Collateral and CCP Collateral shall be realized by CDS and the net proceeds applied in accordance with Rule 9.3.13.</p> <p>(c) Settlement Service Collateral</p> <p>If the suspended Participant is not a Receiver, its Settlement Service Col-lateral is transferred to the Other Members of its Category Credit Ring who are required to make payment to CDS, or, if there are no such Other Members, then to its Sureties. The transfer is made either upon receiving payment from the Sureties and Survivors or in order to enable the Sure-ties and Other Members to make such payment. If the suspended Participant is a Receiver (whether an RCP Receiver or a Non-Contributing Receiver), its Settlement Service Collateral is transferred to its Sureties and CDS in accordance with Rule 5.6.7. CDS shall transfer Settlement Service Collateral without any instructions from or consent by the suspended Participant. If there is no such Surety, then CDS will provide for immediate payment of the amounts owing by the suspended Participant by means of an advance</p>



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to CDS and may use the Settlement Service Collateral of the suspended Participant to secure such advance.

(d) Fund Contributions

With respect to any obligation of the suspended Participant that is guaranteed by a Fund Credit Ring, CDS will provide for immediate payment of the amount owing by means of an advance to CDS and may use the Contribution of the suspended Participant to that Fund, the CCP Collateral of the suspended Participant, and, if required, the Contributions of the Other Members of the Fund Credit Ring to secure such advance. The suspended Participant's Fund Contributions shall be realized by CDS and the net proceeds applied in accordance with Rule 9.3.12.

(e) Collateral Pool Contributions

If the suspended Participant is not a Receiver, its Collateral Pool Contributions are transferred to the Other Members of its Category Credit Ring who are required to make payment to CDS. The transfer is made either upon receiving payment from the Survivors or in order to enable the Other Members to make such payment. CDS shall transfer Collateral Pool Contributions without any instructions from or consent by the suspended Participant. If the suspended Participant is a Receiver, CDS will provide for immediate payment of the amount owing that is guaranteed by its Category Credit Ring by means of an advance to CDS and may use to secure such advance the Contribution of the suspended Participant to that Collateral Pool, Settlement Service Collateral allocated to CDS in accordance with Rule 5.6.7 and, if required, the Contributions of the Other Members of the Category Credit Ring to that Collateral Pool.

(f) [Supplemental Liquidity Contributions](#)

[Upon the suspension of a Participant to CNS, the Supplemental Liquidity Contributions made by all Participants in the Supplemental Liquidity Fund may be realized by CDS to meet any CNS liquidity obligations, provided however that the Supplemental Liquidity Fund cannot be used in the allocation of residual loss as provided in the Procedures and User Guides.](#)

to CDS and may use the Settlement Service Collateral of the suspended Participant to secure such advance.

(d) Fund Contributions

With respect to any obligation of the suspended Participant that is guaranteed by a Fund Credit Ring, CDS will provide for immediate payment of the amount owing by means of an advance to CDS and may use the Contribution of the suspended Participant to that Fund, the CCP Collateral of the suspended Participant, and, if required, the Contributions of the Other Members of the Fund Credit Ring to secure such advance. The suspended Participant's Fund Contributions shall be realized by CDS and the net proceeds applied in accordance with Rule 9.3.12.

(e) Collateral Pool Contributions

If the suspended Participant is not a Receiver, its Collateral Pool Contributions are transferred to the Other Members of its Category Credit Ring who are required to make payment to CDS. The transfer is made either upon receiving payment from the Survivors or in order to enable the Other Members to make such payment. CDS shall transfer Collateral Pool Contributions without any instructions from or consent by the suspended Participant. If the suspended Participant is a Receiver, CDS will provide for immediate payment of the amount owing that is guaranteed by its Category Credit Ring by means of an advance to CDS and may use to secure such advance the Contribution of the suspended Participant to that Collateral Pool, Settlement Service Collateral allocated to CDS in accordance with Rule 5.6.7 and, if required, the Contributions of the Other Members of the Category Credit Ring to that Collateral Pool.

(f) Supplemental Liquidity Contributions

Upon the suspension of a Participant to CNS, the Supplemental Liquidity Contributions made by all Participants in the Supplemental Liquidity Fund may be realized by CDS to meet any CNS liquidity obligations, provided however that the Supplemental Liquidity Fund cannot be used in the allocation of residual loss as provided in the Procedures and User Guides.

<p><b>10.1. OVERVIEW OF CROSS-BORDER SERVICES</b></p> <p><b>10.1.3 Cross-Border Participants</b></p> <p>A Participant may apply in accordance with Rule <a href="#">2.2.2<del>0</del></a> to use one or more Cross-Border Services. Upon acceptance of its application, the Participant becomes a Cross-Border Participant. A Cross-Border Participant who uses a Link Service is a Link Participant. An ACT Participant is a limited purpose Cross-Border Participant that uses the New York Link and is therefore also a limited purpose Link Participant. A qualified Participant (who need not be a Cross-Border Participant) may be designated by a Link Participant to act as its Designated Payment Agent with respect to a Link Service.</p>	<p><b>10.1. OVERVIEW OF CROSS-BORDER SERVICES</b></p> <p><b>10.1.3 Cross-Border Participants</b></p> <p>A Participant may apply in accordance with Rule 2.2.2 to use one or more Cross-Border Services. Upon acceptance of its application, the Participant becomes a Cross-Border Participant. A Cross-Border Participant who uses a Link Service is a Link Participant. An ACT Participant is a limited purpose Cross-Border Participant that uses the New York Link and is therefore also a limited purpose Link Participant. A qualified Participant (who need not be a Cross-Border Participant) may be designated by a Link Participant to act as its Designated Payment Agent with respect to a Link Service.</p>
<p><b>10.6. FUNDS</b></p> <p><b>10.6.3 Link Fund Contribution</b></p> <p>As and when required by CDS each Member of a Link Fund Credit Ring shall make and maintain a contribution (the “Link Fund Contribution”) to the applicable Link Fund, in the amount determined by CDS. A Link Participant's Link Fund Contribution to a Link Fund at the time of the establishment of that Link Fund or at the time that a Link Participant first uses the Link Service in respect of which the Link Fund is established shall be determined in the discretion of CDS, acting reasonably and based upon the anticipated use of the Link Service and the contributions that CDS is required to make to the funds of NSCC and DTC. Any amounts that are paid or pledged directly by Link Participants to DTC or NSCC, or retained by NSCC or DTC from amounts other-wise payable in respect of the Link Participant, shall be considered to be Link Fund Contributions held by DTC or NSCC for CDS. <a href="#">Except for any Link Fund Contribution intended for the NYL Link Fund</a>, Link Participants may make a Link Fund Contribution by providing a letter of credit in lieu of pledging collateral if the Procedures and User Guides so permit.</p> <p><b>10.6.4 Additional Link Fund Contribution</b></p> <p>Forthwith at the request of CDS, a Link Participant shall provide additional Link Fund Contributions to a Link Fund, in addition to its Link Fund Contribution calculated in accordance with Rule 10.6.3. The amount of such additional Link Fund Contributions shall be the amount that CDS in its absolute discretion determines to be prudent to ensure the due discharge of the Link</p>	<p><b>10.6. FUNDS</b></p> <p><b>10.6.3 Link Fund Contribution</b></p> <p>As and when required by CDS each Member of a Link Fund Credit Ring shall make and maintain a contribution (the “Link Fund Contribution”) to the applicable Link Fund, in the amount determined by CDS. A Link Participant's Link Fund Contribution to a Link Fund at the time of the establishment of that Link Fund or at the time that a Link Participant first uses the Link Service in respect of which the Link Fund is established shall be determined in the discretion of CDS, acting reasonably and based upon the anticipated use of the Link Service and the contributions that CDS is required to make to the funds of NSCC and DTC. Any amounts that are paid or pledged directly by Link Participants to DTC or NSCC, or retained by NSCC or DTC from amounts other-wise payable in respect of the Link Participant, shall be considered to be Link Fund Contributions held by DTC or NSCC for CDS. Except for any Link Fund Contribution intended for the NYL Link Fund, Link Participants may make a Link Fund Contribution by providing a letter of credit in lieu of pledging collateral if the Procedures and User Guides so permit.</p> <p><b>10.6.4 Additional Link Fund Contribution</b></p> <p>Forthwith at the request of CDS, a Link Participant shall provide additional Link Fund Contributions to a Link Fund, in addition to its Link Fund Contribution calculated in accordance with Rule 10.6.3. The amount of such additional Link Fund Contributions shall be the amount that CDS in its absolute discretion determines to be prudent to ensure the due discharge of the Link</p>

Notice and Request for Comment – Material Amendments to CDS Participant Rules related to Liquidity and Cash Collateral Management

<p>Participant's obligations to CDS in respect of the Link Service to which the Link Fund relates (taking into consideration the financial stability of the Link Participant, the amount of its obligations to CDS, the market volatility, liquidity, concentration or market float of any issue of Securities held by or to be de-livered by or to the Link Participant, and any other factor that CDS considers relevant). At the request of the Link Participant, CDS shall release any additional Link Fund Contribution if CDS determines in its discretion that such additional Link Fund Contribution is not required to ensure the due discharge of the Link Participant's obligations to CDS.</p> <p>A Link Participant shall deliver a further Link Fund Contribution forthwith after being informed by CDS that (i) an increase in its Link Fund Contribution is required pursuant to Rule 10.6.3; (ii) it is required to replenish its Link Fund Contribution pursuant to Rule <del>10.11.13</del><sup>10.10</sup> following the suspension of another Participant; or (iii) an additional Link Fund Contribution is required pursuant to this Rule 10.6.4.</p>	<p>Participant's obligations to CDS in respect of the Link Service to which the Link Fund relates (taking into consideration the financial stability of the Link Participant, the amount of its obligations to CDS, the market volatility, liquidity, concentration or market float of any issue of Securities held by or to be de-livered by or to the Link Participant, and any other factor that CDS considers relevant). At the request of the Link Participant, CDS shall release any additional Link Fund Contribution if CDS determines in its discretion that such additional Link Fund Contribution is not required to ensure the due discharge of the Link Participant's obligations to CDS.</p> <p>A Link Participant shall deliver a further Link Fund Contribution forthwith after being informed by CDS that (i) an increase in its Link Fund Contribution is required pursuant to Rule 10.6.3; (ii) it is required to replenish its Link Fund Contribution pursuant to Rule 10.11.13 following the suspension of another Participant; or (iii) an additional Link Fund Contribution is required pursuant to this Rule 10.6.4.</p>
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