

13.3 Clearing Agencies

13.3.1 Technical Amendments to CDS Procedures – CDS Currency Service – Notice of Effective Date

NOTICE OF EFFECTIVE DATE – TECHNICAL AMENDMENTS TO CDS PROCEDURES

CDS CURRENCY SERVICE

A. DESCRIPTION OF THE PROPOSED CDS PROCEDURE AMENDMENT

CDS Innovations (CDSI) will provide its Clients, who are also CDS Participants with a new web-based service, the CDS Currency Service (“**CCS**”), to convert entitlement funds received in Canadian dollars to US dollars or vice versa. In order to provide this service, CDSI will receive entitlement information from CDS Clearing and Depository Services Inc. (“**CDS Clearing**”). In turn, CDSI will transmit the CCS election transactions to CDS Clearing to facilitate the settlement of funds in CDSX which – consistent with current naming conventions – will be reported under the new CCS transaction type “X” with the description “Currency Service Transaction”. The technical amendment is required to facilitate the creation of transaction X in CDSX for reporting the CCS transactions.

The CCS will offer two election options for its Clients to submit their instructions as follows:

- **Entitlement FX Transactions** – Participants may choose to convert their entitlement proceeds for the alternate Canadian or US funds by providing an election at least three (3) business days prior to the CDS payable date for entitlements with a predetermined CDS payable date. On payable date, once the eligible event is paid, the elected entitlement funds amount will be debited from the participants’ funds account (“**FA**”) and their FA will be credited with the equivalent amount of the alternate funds for value on the same day (Refer to Appendix A for a list of entitlements with predetermined CDS payable dates).
- **On-Request FX Transactions** – Participants will have the opportunity to elect to convert the entitlement proceeds received from a payment, where the payable date is not predetermined. In this case, based on the participants’ elections their FA will be debited for the elected funds amount and their FA will be credited with the equivalent amount of the alternate funds for value on the date of request.

CDS Innovations will transmit the CCS election transactions to CDS Clearing in CDSX on the value date of the payment. CDSX will use these transactions to facilitate the settlement of the funds which—consistent with current naming conventions—will be reported under the new CCS transaction type “X” with the description “Currency Service Transaction”.

CDS core clearing services and current processes will not be affected by this new transaction type. All CDSX existing transactions will remain unchanged and unaffected. All existing settlement risk edits will be applied to CCS transactions.

Proposed Procedure Amendment

A technical amendment is required to introduce a new transaction type “X” in CDSX to facilitate the reporting of elective currency settlement transactions.

The following procedures will be updated to reflect the introduction of transaction type “X” under the following sections:

CDSX Procedures and User guide:

- 2.2.1 Transactions that affect ledger balances

CDS Reporting Procedures:

- 24.2 CDS Currency Service Settlements – FX Bank report
- 24.3 CDS Currency Service Settlements – Participant report
- 24.4 Daily transaction report
- 24.6 Settled transactions report
- 24.8 Unsettled transactions report

CDS procedure amendments are reviewed and approved by the CDS Strategic Development Review Committee (“SDRC”). The SDRC reviews and provide comments on CDS-related systems development and other changes proposed by Participants and CDS. The SDRC’s membership includes representatives from the CDS participant community and it meets on a monthly basis.

The SDRC reviewed and approved the amendment on February 26, 2015.

CDS intends to implement the technical amendment to the Procedures on June 1st, 2015, subject to regulatory non-disapproval.

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

B. REASONS FOR TECHNICAL CLASSIFICATION

The amendment proposed in this notice involves only matters of a technical nature in routine operating procedures and administrative practices relating to the settlement services for the following reasons:

- I. CDSX:
 - Addition of transaction X to facilitate the reporting of elective currency settlement transactions is routine as the only activity is the movement of funds; there will be no changes to the entitlement services
 - The same existing settlement risk edits will be applied to deal with potential risks as the anticipated incremental volume would have an immaterial impact on the performance of CDSX based on the initial estimated transaction volumes
 - The new transaction type will use existing CDSX functionality and does not affect any process changes for Participants
- II. CDS Innovations:
 - Receives and collates election instructions, as described in Part A of this Notice, through the CCS web based application to convert entitlement funds received in Canadian dollars to US dollars and vice versa
 - CDS Clearing is decoupled/separate from transactions between CDS Innovations and its Clients
 - Legal/financial risks to Participants will not be borne by CDS Clearing

C. EFFECTIVE DATE OF THE CDS PROCEDURE AMENDMENTS

CDS is recognized as a clearing agency by the Ontario Securities Commission pursuant to Section 21.2 of the Ontario *Securities Act*, and by the British Columbia Securities Commission pursuant to Section 24(d) of the British Columbia *Securities Act*, and as a clearing house by the *Autorité des marchés financiers* pursuant to Section 169 of the Quebec *Securities Act*. In addition CDS is deemed to be the clearing house for CDSX[®], a clearing and settlement system designated by the Bank of Canada pursuant to Section 4 of the *Payment Clearing and Settlement Act*.

CDS has determined that these amendments, subject to regulatory non-disapproval, will become effective on June 1, 2015.

Appendix A: List of event types with a predetermined CDS payable date

Event code	Event name	Event category
APN	Other asset-backed (payable date with no write down)	Mandatory distribution (with no options)
ARN	Interest or interest and principal (record date with no write down)	Mandatory distribution (with no options)
CVM	Mandatory conversion	Mandatory (with no options)

Event code	Event name	Event category
DIS	Cash distribution	Mandatory distribution (with no options)
DIV	Cash dividend	Mandatory distribution (with no options)
DWO	Dividend with option	Mandatory distribution (with options)
EXM	Mandatory Exchange Mandatory Conversion Mandatory exchange	Mandatory (with no options) Mandatory distribution (with no options)
FAB	Other asset-backed final payment	Mandatory (with no options)
INO	Interest with option	Mandatory distribution (with options)
INT	Interest	Mandatory distribution (with no options)
LQD	Liquidation	Mandatory distribution (with no options)
MAT	Maturity	Mandatory (with no options)
MCM	Mandatory change (name change)	Mandatory (with no options)
MGM	Merger (with no options)	Mandatory (with no options)
PAM	Plan of arrangement (with no options)	Mandatory (with no options)
RDM	Mandatory redemption	Mandatory (with no options)

D. QUESTIONS

Questions regarding this notice may be directed to:

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