

Chapter 13

SRO Notices and Disciplinary Proceedings

13.1.1 CDS Rule Amendment Notice – Technical Amendments to CDS Procedures – Pledge: Suppress Auto Claim; Pledge: Remove Loan Items; Pledge: Update Loan Item for Stock Splits and Stock Distribution Type Events

CDS CLEARING AND DEPOSITORY SERVICES INC. (CDS®)

TECHNICAL AMENDMENTS TO CDS PROCEDURES

PLEDGE: SUPPRESS AUTO CLAIM

PLEDGE: REMOVE LOAN ITEMS

PLEDGE: UPDATE LOAN ITEM FOR STOCK SPLITS AND STOCK DISTRIBUTION TYPE EVENTS

NOTICE OF EFFECTIVE DATE

A. DESCRIPTION OF THE AMENDMENTS

Background

A participant working group was convened in 2007 to review the existing entitlement claims processing on Pledge items. These initiatives were approved by the CDS Strategic Development Review Committee ("SDRC") Debt subcommittee.

Pledge: Suppress Auto Claim

Currently, entitlement claims are automatically processed against loan items for distribution with option type events. This auto-claiming process is to be suppressed so that distribution with option events are handled the same as voluntary and mandatory with option events, and therefore no claims are generated. Existing auto claim processing for distribution and mandatory type events (e.g. those without options) will remain unchanged.

Pledge: Remove Loan Items

If the submit item in a mandatory event is the security loan item in a pledge, the current entitlement claims process removes the loan item. Existing functionality is to be expanded to include removing the expired loan items from mandatory with option type events in paid status. Additionally, a one-time "clean-up" of the existing expired loan items from all pledges is to be included as part of the implementation of this initiative.

Pledge: Update Loan Item for Stock Splits and Stock Distribution Type Events

Currently, stock distribution type events are subject to the auto-claim process, and Stock Split events are exempt from all claims related processing. The following changes are required to the business rule for these Record Date-based events:

1. Where a pledge exists on Payable Date:
 - add the entitlement proceeds to the existing security loan item, or if the security loan item no longer exists, add a new security loan item, based on the Record Date position
2. Where the pledge no longer exists on Payable Date:
 - create a security claim transaction against the borrower to deliver the entitlement (securities) to the lender.

Additionally, a one-time "clean-up" of the existing outstanding (pending) stock claims is to be included as part of the implementation of these initiatives.

The Procedures marked for the amendments may be accessed at the CDS website at:

<http://www.cds.ca/cdsclearinghome.nsf/Pages/-EN-UserDocumentation?Open>

Description of Proposed Amendments

The following procedure will be impacted by this initiative:

- CDSX Procedures and User Guide, Chapter 8 Entitlement Activities, Entitlement processing of pledges, Sections 8.17.1, 8.17.2, 8.17.3, 8.17.4, 8.17.5, 8.17.6, 8.17.7, 8.17.8, 8.17.9, 8.17.10, 8.17.11 and 8.17.12

B. REASONS FOR TECHNICAL CLASSIFICATION

The amendments proposed pursuant to this Notice are considered technical amendments as they are matters of a technical nature in routine operating procedures and administrative practices relating to the settlement services.

C. EFFECTIVE DATE OF THE RULE

Pursuant to Appendix A ("Rule Protocol Regarding The Review And Approval Of CDS Rules By The OSC") of the Recognition and Designation Order, as amended on 1 November, 2006, and Annexe A ("Protocole d'examen et d'approbation des Règles de Services de Dépot et de Compensation CDS Inc. par l'Autorité des marchés financiers") of AMF Decision 2006-PDG-0180, made effective on 1 November, 2006, CDS has determined that these amendments will be effective on May 5, 2008.

These amendments were reviewed and approved by the CDS SDRC on March 27, 2008.

D. QUESTIONS

Questions regarding this notice may be directed to:

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