

13.1.8 CDS Rule Amendment Revised Notice – Technical Amendments to CDS Procedures – 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: REMOVE LOAN ITEMS

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

REVISED 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.

The original submission for regulatory review was made on March 28, 2008 with an effective date of May 5, 2008. The original Notice, which was published by the OSC on April 25, 2008 and by the AMF on May 2, 2008, was part of a CDS package of proposed procedural amendments and it referred to the following three items: (1) Suppress Auto Claim; (2) Remove Loan Items; and (3) Update Loan Item for Stock Splits and Stock Distribution Type Events.

After the original submission for regulatory review was made on March 28, 2008, representatives of the SDRC membership's entitlement area expressed concern regarding the first item listed above; Suppress Auto Claim. They were concerned that the implementation of this item would require a substantial manual work effort, and would prefer to retain the auto claim process. The SDRC membership was convened to a conference call meeting on April 28, 2008, where it unanimously decided that the Suppress Auto Claim item would not be implemented. Therefore, this revised Notice includes only the following details:

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-blacklined?Open>

Description of Proposed Amendments

The following procedure has been impacted by this initiative:

- CDSX Procedures and User Guide, Chapter 8 Entitlement Activities, Entitlement processing of pledges, Sections 8.17.6, 8.17.7, and 8.17.8.

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 had originally determined that these amendments would be effective on **May 5, 2008**. However, to accommodate the removal of the Suppress Auto Claim item and to allow for testing of the remaining initiatives of the CDS package of proposed procedural amendments, the implementation date had to be postponed to **May 12, 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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