

Chapter 13

SRO Notices and Disciplinary Proceedings

13.1.1 CDS Rule Amendment Notice – Technical Amendments to CDS Rules Relating to Non-Compliant Position with Regulation SHO

CDS CLEARING AND DEPOSITORY SERVICES INC. (CDS®)

TECHNICAL AMENDMENTS TO CDS RULES RELATING TO NON-COMPLIANT POSITION WITH REGULATION SHO

NOTICE OF EFFECTIVE DATE

A. DESCRIPTION OF THE PROPOSED AMENDMENTS

In 2006, CDS's regulators approved amendments to the CDS Participant Rules related to Regulation SHO as adopted by the United States Securities and Exchange Commission ("SEC"). Under the rule amendments, CDS was granted the authority to close out a fail-to-deliver position of a participant using the cross-border services in certain equity securities trading in the U.S. that are on a U.S. SRO list of securities experiencing substantial and persistent failures to deliver. Regulation SHO's close-out requirements were designed to address problems with failures to deliver in certain equity securities.

In June 2007, the SEC amended the close-out requirements. Specifically, a modified close-out requirement was enacted for fails to deliver resulting from sales of threshold securities pursuant to Rule 144 of the Securities Act of 1933 (Securities Act) ["Rule 144 Securities"]. As the modified close-out requirement is 35 consecutive settlement days for Rule 144 Securities [extended from 13 consecutive settlement days as stated in CDS Participant Rule 10.2.3(b)], CDS Participant Rule 10.2.3(b) must be amended in order to be consistent with Regulation SHO. Amendments have been proposed incorporating by reference to Regulation SHO, the definition of a "non-compliant position with Regulation SHO". As such, subsequent amendments to the close-out requirements under Regulation SHO will no longer require parallel amendments to the CDS Rules.

The Rules marked for the proposed amendments may be accessed on the CDS website at:
<http://www.cds.ca/cdsclearinghome.nsf/Pages/-EN-Participantrules?Open>.

B. REASONS FOR TECHNICAL CLASSIFICATION

The amendments proposed pursuant to this Notice are classified as "technical/housekeeping" as they involve only amendments required to ensure consistency or compliance with an existing rule, securities legislation or other regulatory requirement.

C. EFFECTIVE DATE OF THE RULE

Pursuant to (1) Appendix A ("Rule Protocol Regarding The Review And Approval Of CDS Rules By The OSC") of the OSC Recognition and Designation Order, as amended November 01, 2006 and (2) Annexe A ("Protocole d'examen et d'approbation des Règles de Services de Dépôt et de Compensation CDS Inc. par l'Autorité des marchés financiers") of AMF Decision 2006-PDG-0180, made effective on November 01, 2006, CDS has determined that these amendments will be effective on July 21, 2008.

Pursuant to the unanimous shareholder agreement between The Canadian Depository for Securities Limited ("CDS Ltd.") and CDS, effective as of November 01, 2006 whereby CDS Ltd., which acts under the supervision of its Board of Directors, assumes all rights, powers, and duties of the CDS Board of Directors, these amendments were reviewed and approved by the Board of Directors of CDS Ltd. on June 17, 2008.

D. QUESTIONS

Questions regarding this notice may be directed to:

Jamie Anderson
Managing Director, Legal
CDS Clearing and Depository Services Inc.
85 Richmond Street West
Toronto, Ontario M5H 2C9

Fax: 416-365-1984
e-mail: attention@cds.ca

TOOMAS MARLEY
Chief Legal Officer