

CDS Clearing and Depository Services Inc. (CDS®)
MATERIAL AMENDMENTS TO CDS RISK PROCEDURES
RELATED TO POST-TRADE MODERNIZATION
REQUEST FOR APPROVAL

A. DESCRIPTION OF THE PROPOSED CDS RISK PROCEDURES AMENDMENTS

The Post-Trade Modernization project (“**PTM**”) of CDS started in 2017. The objective of the project is to upgrade the CDS clearing, settlement and depository platform to a more modern, flexible and supportable technology, which will allow for flexibility in building future changes and will ease future support activities. As a result, PTM is bringing about changes to the operating system of CDS and related processes, which are expected to take effect in Q4 2021. In parallel, CDS is taking the opportunity to extensively review all its financial risk models to ensure consistency with CPMI-IOSCO Principles for Financial Market Infrastructures (“**PFMI**”) and to identify common best practices among CDS’s global Financial Market Infrastructure (“**FMI**”) peer group. Such changes, in turn, are triggering corresponding amendments to the existing CDS risk procedures “Participating in CDS Services”. In this respect, CDS has taken the opportunity to carve out only the risk-related portions of the existing “Participating in CDS Services” to create a stand-alone “CDS Risk Procedures” document and make the appropriate changes as outlined below.

During CDS’s preparation of the new CDS Risk Procedures, additional housekeeping amendments have also been identified (collectively, “**Proposed PTM Amendments**”).

B. NATURE AND PURPOSE OF THE PROPOSED NEW CDS RISK PROCEDURES

Proposed Amendments

Based on the last guidance report on PFMI, CDS has reviewed the risk methodologies for the CNS Service and SSS Service and is proposing material amendments as outlined below. Housekeeping modifications are also proposed to ensure global harmonization.

CNS Service:

CDS has decided to enhance its compliance with PFMI standards and its risk management practices by:

- Designing a clear and comprehensive margin framework comprised of two main components; a base initial margin component and a margin add-ons component;
- Implementing enhancements to the Base Initial Margin methodology. The new margin methodology will be calibrated using a non-parametric VAR approach and a static holding period (instead of a parametric approach and variable holding periods);
- Adding two new risk add-ons designed to capture the risk related to securities and concentration (i.e. Market Liquidity Risk) and the specific risk if a participant holds securities on their own or their affiliated participants (i.e. Wrong-Way Risk); and
- Reviewing the methodology of the Mark-to-Market add-on. The add-on is based on the net portfolio debit and would no longer take into consideration the maximum unpaid mark over the previous 50 business days.

SSS Service:

CDS has decided to enhance its compliance with PFMI standards and its risk management practices by:

- Implementing a new Haircut methodology. This new haircut methodology would be calibrated using a non-parametric VAR approach and a variable holding period based on the dollar average trading volume (instead of a parametric approach and variable holding periods based on the shares average trading volume).

Housekeeping:

CDS is taking the opportunity to:

- Harmonize all the terms employed in the new CDS Risk Procedures;
- Review operational descriptions and tables for collateral management, collateral valuation and the processing of suspensions;
- Align all the terms and references to be consistent with the CDS Risk Model; and
- Enhance specific sections with clearer definitions or references.

C. INTERNAL APPROVALS

The proposed amendments to the new CDS Risk Procedures were reviewed and approved as follows:

- Approved by the Chief Risk Officer
- Reviewed by the Risk Advisory Committee August 18, 2020.

D. REGULATORY REVIEW AND APPROVAL

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, 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 Proposed new Risk Procedures will come into effect on a date to be determined by CDS, such date to be after the required public notice and comment period, approval of the Proposed Material Amendments by the Recognizing Regulators, and publication of notice of approval to Participants.

E. QUESTIONS

Questions or comments on the amendments to the CDS Risk Procedures should be submitted in writing to:

George Kormas

Chief Risk Officer
CDS Clearing and Depository Services Inc.
100 Adelaide Street West
Toronto, Ontario M5H 1S3
Telephone: 514-871-7881
Email: George.Kormas@tmx.com