

13.3 Clearing Agencies

13.3.1 Material Amendments to CDS Procedures – Issuance of Money Market Securities – Notice and Request for Comments

CDS CLEARING AND DEPOSITORY SERVICES INC.

MATERIAL AMENDMENTS TO CDS PROCEDURES

ISSUANCE OF MONEY MARKET SECURITIES

NOTICE AND REQUEST FOR COMMENTS

A. DESCRIPTION OF THE PROPOSED CDS AMENDMENTS

During 2009, CDS Clearing and Depository Services Inc. (CDS[®]) reviewed the processes for issuing, transferring and maintaining custody of money market securities in CDSX[®], and the roles and responsibilities of the participants acting as issuer agents for money market securities. CDS determined that the system processes required updating, that additional controls and standards should be imposed on its internal processes and on participant issuer agents, and that new requirements should be imposed to ensure compliance with these controls and standards.

On January 20, 2010, the CDS Board of Directors approved amendments to the CDS Rules (the Money Market Rules) relating to the process for issuing, transferring and maintaining custody of money market securities in CDSX; the Money Market Rules were published by CDS on its website for participant review and comment, and were published for public comment. On March 5, 2010, CDS published on its website the amendments to its Procedures (the Money Market Procedures) related to the changes in the money market security processing. On March 24, 2010, CDS published a bulletin to participants informing them that the Money Market Rules and the Money Market Procedures would come into effect on April 5. On April 5, 2010, the system changes were implemented and the Money Market Rules and the Money Market Procedures came into effect. This Notice is being published to provide participants and the public an opportunity to review and to comment on the Money Market Procedures.

B. NATURE AND PURPOSE OF THE PROPOSED AMENDMENTS

Money market financing is a very important segment of the Canadian financial system: both corporate and government issuers utilize the market for their short term borrowing needs; investors and financial institutions utilize the securities as direct investments and as collateral both within CDSX and for a range of major transactions in the payment system and financings. The infrastructure supporting the money market must be as risk-proofed and stable as possible. The changes to the CDSX system functionality, and the Money Market Procedures implementing these changes, are directed to these objectives. The primary focus of the Money Market Procedures is the definition of participant roles and responsibilities with respect to eligible securities, and the imposition of standards for adequate internal controls and segregation of duties in the back-office operations of participants who undertake these roles.

The Money Market Rules define the roles and responsibilities for an approved money market participant. The Money Market Procedures outline the functions and activities a money market participant may perform including any system edits that apply based on the role they are assuming. The Money Market Procedures explain how a money market participant performs the required activities to take a money market security from issue set-up to maturity. Definitions, roles, responsibilities, and terminology were amended throughout the Money Market Procedures to conform with the Money Market Rules.

The Money Market Rules set a single uniform qualification for all participants acting as issuer agents of CDSX eligible securities. Each participant wishing to act as an issuer agent will be required to submit an application to CDS, including documents demonstrating that it meets these qualifications. Upon approval, CDS will provide the participant with access to the money market issuing functionality. A new money market eligibility indicator will also be added at the CDS participant profile level in CDSX. This application will track and maintain a record of the CDS participants (current and future) that acting in the capacity of ISIN activator, security validator and custodian for money market issuance and processing. CDS will use the application information to perform periodic reviews of participants who act in these roles to ensure they continue to meet the requirements and qualifications outlined in the Rules.

Under the Money Market Procedures, new minimum internal control standards on money market securities have been established and two new annual certifications (for money market issuing agent participants and for custodians) have been created. These are reflected in the following forms (the Money Market Forms), which are incorporated into and form part of the Money Market Procedures:

- Minimum Internal Control Standards on Money Market Securities Issuance
- Annual Money Market Participant Certification
- Annual Custodian Certification (including the attached Guidelines for Custodian Compliance)

Minimum Internal Controls Standard on Money Market Securities: CDS expects each participant acting as issuing agent for money market securities in CDSX to maintain minimum standards of internal controls on money market issuance and deposit processes and to perform periodic reviews to ensure its management can satisfy itself of the continuing adequacy of its internal controls.

Annual Money Market Participant Certification: On an annual basis, CDS will require the money market participant to certify it has and continues to meet these minimum internal controls. The participant must certify to CDS it has met all the requirements documented in the certification; the certification must be signed by the participant's officers responsible for internal audit, compliance and operations management. A participant who is unable to certify that all requirements are met must identify each deficiency, explain the reasons for the deficiency and provide an action plan to correct the deficiency.

Annual custodian certification: CDS appoints an institution to act as its custodian of physical securities. Accordingly, CDS requires the custodian to apply, at minimum, the level of duty of care set out in the Rules. The custodian must provide to CDS its certification of compliance with the principles of duty of care. This annual certification must be submitted to CDS at the same time that the custodian submits its annual securities reconciliation statement to CDS. Included with this certification form are the guidelines which set out the custodian's duty of care in the safekeeping of CDS's physical certificates, and CDS's requirements for the annual reconciliation of the physical certificates held by the custodian.

C. IMPACT OF THE PROPOSED CDS PROCEDURES AMENDMENTS

The Money Market Procedures relating to the role of participants as issuer agents for money market securities affect only the small group of 14 participants who currently act as issuer agents, all of whom have been consulted during the development of the new process and standards for the issuance of money market securities through CDSX. The Money Market Procedures are not expected to have any impact on other financial institutions or on the securities and financial markets in general.

C.1 Competition

The Money Market Procedures are expected to have no impact on competition.

C.2 Risks and Compliance Costs

The new processes, standards and monitoring for the issuance of money market securities enhance CDSX risk control mechanisms. CDS has incurred costs in implementing system changes, and will incur costs in ongoing monitoring and review. The system changes also reduce some CDS costs by automating processes that would previously have required manual intervention. Participants acting as issuer agents may incur additional costs to the extent the new standards and reporting requirements require changes to back office staffing, systems and operations. CDS has discussed the new standards with each current issuer agent participant, and has not received any negative response on the cost or effort required.

C.3 Comparison to International Standards

In designing the internal controls on its own operational processes, CDS has adopted the principles set by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The guidelines for participants are also based on the COSO standard; CDS recognizes that each of the issuer/agent participants, being a regulated financial institution, also has specific industry standards for its own internal controls.

D. DESCRIPTION OF THE DRAFTING PROCESS

D.1 Development Context

Money market securities are relatively high value/low risk securities which are an important segment of the Canadian financial market and also play a key role in the risk control structures of CDSX. The processes for issuing money market securities through CDSX must meet the highest standards for reliability and risk containment. These securities, in addition to being traded and pledged between participants, are pledged as collateral for collateral pools and are given relatively high aggregate collateral value (ACV) to collateralize participants' settlement activity. In order to safeguard the integrity of the CDSX system, there must be effective controls in place to ensure that the participant issuer agents properly execute their roles. The system enhancements supported by the Money Market Procedures will provide added assurance that the money market securities are being deposited and processed properly so that they can continue to be traded and to be used as collateral.

D.2 Drafting Process

Amendments to CDS's Procedures are reviewed and approved by CDS's Strategic Development Review Committee (SDRC). The SDRC prioritizes and oversees 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 Money Market Procedures were reviewed and approved by the SDRC on March 4, 2010.

Each amendment to the CDS Participant Rules is reviewed by CDS's Legal Drafting Group (LDG). The LDG is a committee that includes members of Participants' legal and business groups. The LDG's mandate is to advise CDS management and its Board of Directors on rule amendments and other legal matters relating to centralized securities depository and clearing services in order to ensure that they meet the needs of CDS, its participants and the securities industry generally. The LDG reviewed the

new money market process which is implemented by the Money Market Procedures on December 16, 2009, and reviewed the Money Market Rules on January 8, 2010.

The Money Market Procedures affect only the 14 participants acting as issuer agents for money market securities. The affected participants have had considerable opportunity to comment on these documents in the course of their development by CDS, including individual meetings between the CDS Customer Service department and each participant issuer agent at which the documents were discussed in detail. The participant issuer agents are aware of the new standards and processes, and have made the operational adjustments necessary to comply with them.

D.3 Issues Considered

CDS's primary concern has been to enhance the reliability of the processes for issuing, transferring and maintaining custody of money market securities in CDSX. In developing its response to perceived deficiencies in the current system, CDS has also been taken into consideration the need for market efficiency, and the importance of not increasing costs and administrative burdens on participants that could lessen the competitiveness of this important segment of the Canadian financial market.

D.4 Consultation

CDS consulted with each of the participants that currently acts as an issuer agent for money market securities, reviewing with them the new process for the issuance of securities through CDSX, the proposed new standards for participant operations, the internal control requirements and the new reporting and monitoring processes. The Money Market Procedures implement these changes.

D.5 Alternatives Considered

Before deciding on the revised money market issuance process reflected in the Money Market Procedures, CDS considered the alternative of removing the functionality from participant issuer agents and instead processing all new money market issues in-house. This alternative was determined to be impractical, very costly, and disruptive to the Canadian financial market. It was decided that the necessary combination of functionality and timeliness to meet the demands of issuers raising funds in the money market could be achieved only if the processes were initiated by participants acting as the agents of the issuers, and did not require manual intervention by CDS. CDS investigated a number of possible solutions for processing, and determined that the process should be as automated as possible, avoiding manual intervention, to enhance efficiency and certainty in the imposition of controls and standards.

D.6 Implementation Plan

CDS is recognized as a clearing agency by the Ontario Securities Commission pursuant to section 21.2 of the Ontario *Securities Act*. The Autorité des marchés financiers has authorized CDS to carry on clearing activities in Québec pursuant to sections 169 and 170 of the Québec *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*. The Ontario Securities Commission, the Autorité des marchés financiers and the Bank of Canada will hereafter be collectively referred to as the Recognizing Regulators.

In accordance with the bulletin previously issued to participants, the Money Market Procedures are currently in effect, and will remain in effect until completion of the period for public review and comment and the period for review by the Recognizing Regulators following public notice and comment. CDS will respond to any comments received during that time. If necessary, CDS will propose revisions to the Money Market Procedures in response to such comments.

E. TECHNOLOGICAL SYSTEMS CHANGES

E.1 CDS

CDS has added several new features to its internal processes for the issuance of money market securities. Internal processes, procedures and existing controls have been updated, including:

- a new application process for participant issuer agents
- system confirmation of a participant's qualification to use functionality
- system checks on segregation of duties between different users in participant back office operations
- system generated reports on exception processing
- system checks of various data input by participants
- system generated alerts identifying data outside of standard parameters (such as maturity date and quantity of security)
- new data collection and analysis for the CDSX Risk Management System
- reconciliation between the custodial and issuer register positions.

The enhancements to the CDSX system were successfully implemented on April 5, 2010 and CDS and its participants have operated under the revised process since that date.

E.2 CDS Participants

The new money market issuance process uses established systems and communication links with CDSX; as a result, there will be limited impact on participant systems, and only for those participants who act as issuer agents. Additional data fields have been added to existing CDS/participant interfaces and some additional processing steps have been added to confirm data entered. The requirements for segregation of duties may require some participants to appoint additional employees as users with access to CDSX functionality.

Only the 14 participants acting as issuer agents for money market securities were affected by the implementation of the system changes and the Money Market Procedures. All participant issuer agents have been able to operate successfully with the enhanced CDSX functionality from April 5, 2010 onwards. There are no external development impacts for other CDS participants.

E.3 Other Market Participants

There are no external development impacts to other participants in the Canadian financial markets.

F. COMPARISON TO OTHER CLEARING AGENCIES

The new money market issuance process, and the Money Market Procedures required for that process, are specifically designed for the established practices in the Canadian money market and the legislation governing such securities (including the federal *Depository Bills and Notes Act*, and the provincial *Securities Transfer Acts*). Accordingly, there is no direct comparison with clearing agencies in other jurisdictions. The practices of other clearing agencies are not relevant to the Money Market Procedures, which govern the use of CDSX specific functionality.

G. PUBLIC INTEREST ASSESSMENT

CDS has determined that the proposed amendments are not contrary to the public interest. The money market is a very significant sector of the Canadian financial market, which will benefit from enhanced standards in the issuance of money market securities through CDSX, and the increased monitoring of compliance with those standards.

H. COMMENTS

Comments on the proposed amendments should be in writing and submitted within 30 calendar days following the date of publication of this notice in the Ontario Securities Commission Bulletin to:

Legal Department
CDS Clearing and Depository Services Inc.
85 Richmond Street West
Toronto, Ontario M5H 2C9
Fax: 416-365-1984
e-mail: attention@cds.ca

Copies should also be provided to the Autorité des marchés financiers and the Ontario Securities Commission by forwarding a copy to each of the following individuals:

M^e Anne-Marie Beaudoin
Secrétaire de l'Autorité
Autorité des marchés financiers
800, square Victoria, 22^e étage
C.P. 246, tour de la Bourse
Montréal, Québec, H4Z 1G3

Manager, Market Regulation
Market Regulation Branch
Ontario Securities Commission
Suite 1903, Box 55,
20 Queen Street West
Toronto, Ontario, M5H 3S8

Télécopieur: (514) 864-6381
Courrier électronique: consultation-en-cours@lautorite.qc.ca

Fax: 416-595-8940
e-mail: marketregulation@osc.gov.on.ca

CDS will make available to the public, upon request, all comments received during the comment period.

I. PROPOSED CDS PROCEDURE AMENDMENTS

Appendix A contains the Money Market Forms:

- Minimum Internal Control Standards on Money Market Securities Issuance
- Annual Money Market Participant Certification
- Annual Custodian Certification (including the attached Guidelines for Custodian Compliance)

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

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

APPENDIX A
PROPOSED CDS MONEY MARKET FORMS

All of the Money Market Forms are additions to the CDS Procedures, and therefore the documents are not marked to show changes.

Minimum Internal Control Standards on Money Market Securities Issuance

PURPOSE

This document sets out the minimum standards of internal controls that CDS expects to be operating at participant locations for issuance and subsequent handling of money market securities.

Disclaimer: Nothing in these standards should be construed as legal advice.

CDS has adopted the principles of COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal controls framework on its own operational processes. Therefore, the standards contained in this document are based on this framework. However, CDS recognizes that participants may be operating under other internal controls frameworks, which are equally acceptable. CDS does not expect anything contained in this document to contradict the requirements of any other internal controls framework.

Minimum standards of internal controls expected in the Money Market participant organizations

The participant has two separate roles: as the agent of the issuer, it issues and distributes money market securities; as a participant in CDS, it has independent responsibilities to CDS and to other participants in fulfilling the responsibilities of an ISIN activator, security validator and custodian. Each participant who is qualified to issue money market securities eligible in CDSX has been provided with appropriate functionality in CDSX to set up, issue and process money market securities for its own CUIDs. The minimum standards set out in the following sections are in relation to the operational and IT processes associated with this functionality.

CDS expects each participant issuing money market securities in CDSX to maintain minimum standards of internal controls on money market issuance and deposit processes and perform periodic reviews, so that its management can satisfy itself of the continuing adequacy of its internal controls. The categories of internal controls expected to be included as a minimum in this review are:

- Segregation of duties
- Access rights
- Personnel
- Reconciliation
- Exceptions
- Roles and responsibilities, and
- Authorization.

Furthermore, these internal controls are expected to operate at the appropriate oversight levels within the participant organization. These oversight levels are:

- Control evaluation
- Control environment
- Control activities, and
- Monitoring and communication.

The following sections of the document set out CDS's expectations on minimum standards for these internal controls operating under each of these oversight levels.

CDS expects that any breach in respect of these internal controls is identified, investigated and remedied by the participants and that CDS is immediately advised of its details.

Control evaluation

CDS expects participants issuing money market securities in CDSX to conduct formal periodic reviews for identifying control gaps on the process of issuing and depositing money market securities in CDSX, and in the procedures for safekeeping physical certificates. It is expected that these reviews have been designed to identify design or operating control deficiencies and that the findings of these reviews result in escalation to senior management for timely resolution.

Control environment

CDS expects participants issuing money market securities in CDSX to maintain and document control environment principles and policies for money market issuance, deposits and safekeeping. These principles and policies should include at least the following categories of controls:

Segregation of duties

CDS expects that the money market issuance process is conducted under a segregated environment. The first level of segregation of duties is between the key functions of service access administration (SAA) for granting of individual access rights to the relevant functionality in CDSX, and processing (using the functions in CDSX to issue and deposit money market securities). These segregation controls must ensure that the same individual does not hold both service access administration and processing capabilities.

Furthermore, CDS expects that the issuance and deposit functions are further segregated into its component roles of ISIN activator and security validator with these two functions being performed by different individuals. CDS expects individuals performing the roles of ISIN activator and security validator to be independently satisfied as to the authenticity of the security that is being issued, the appropriateness of the security type and of the accuracy of the data being input into CDSX for the security. CDS expects each of these individuals to be operating under the appropriate authority granted to them by the participant organization and that the individuals have the relevant corroborating documents to perform required due diligence at the time of performing their functions in CDSX.

CDS expects the participant to enforce the segregation environment between the SAA, the ISIN activator and the security validator by means of assigning appropriate functionality to each individual's password controlled login ID.

The custodian's responsibilities consist of safekeeping of the physical certificates and maintaining an accurate record of the securities in the custodian's safekeeping and providing complete and timely reports to CDS of the certificates. It is expected that the custodian function is segregated from the SAA and security validator functions.

Personnel

CDS expects that individuals chosen by the participants to perform the functions in CDSX for security administration, ISIN activator, security validator and custodian functions have the appropriate skills, experience and authority to perform these tasks.

Control activities

CDS expects participants issuing money market securities in CDSX to maintain and document specific control activities for money market issuance, deposits and safekeeping. These control activities should address at least the following controls:

Roles and responsibilities

The individuals performing the roles of ISIN activator and security validator for a new money market security are responsible for ensuring that the ISIN is appropriate for that security and that the security is an eligible and valid security.

The issuance of money market securities that are to be deposited into CDSX must be supported by appropriate documentation. The documentation must contain all of the requisite detail to fully capture the issuance and enable the authorizers to validate the authenticity of the issuance and deposits against these documents.

The ISIN activator is specifically responsible for ensuring that the ISIN accurately reflects the attributes of the security as issued. Rule 2.5.4 provides that:

By confirming the ISIN for a Security, the ISIN Activator represents and warrants to CDS and to all other Participants (i) that the ISIN accurately reflects the attributes of the Security which is identified by that ISIN; (ii) that the entries describing the Security are accurate; and (iii) if the ISIN identifies a pool of Securities, that such Securities have a common primary obligor and are appropriately pooled in accordance with Rule 6.10.2.

The security validator is specifically responsible for ensuring a number of attributes of each deposited security. The security validator is also the agent of the issuer of the security, and therefore has access to the necessary resources to determine these matters. Rule 6.2.9 provides that:

By confirming the deposit of a Security, the Security Validator represents and warrants to CDS and to all other Participants:

- (a) that the entries describing the Security are accurate;*
- (b) that such Security has been duly authorized and issued by the Issuer;*
- (c) if the Security is in registered form, that the Issuer's register with respect to that issue of Securities records CDS or its Nominee as the registered holder of the total quantity of deposited Securities;*
- (d) if the Security is in bearer form, that the Issuer's register corresponds to the total quantity of deposited Securities;*

- (e) that each certificate or other instrument evidencing such Security has been duly executed and issued by the Issuer;
- (f) that each certificate or other instrument evidencing such Security is genuine and in proper form;
- (g) that there is competent legislation providing that transactions in such Security may be effected by entries made on the records of CDS; and
- (h) that the Issuer's obligation to pay entitlements owing in respect of the Security will not be discharged by payment to the Entitlements Processor or to the Issuer's paying agent.

It is noted that competent legislation validating clearing agency transactions in securities includes the federal *Depository Bills and Notes Act* and the Ontario *Securities Transfer Act, 2006*.

Money market securities in CDSX are classified into the following categories:

Securities usually issued under the federal *Depository Bills and Notes Act*:

- Banker's Acceptance (BA)
- Bearer Deposit Note (BDN)
- Certificate of Deposit (CD)
- Commercial Paper (CP)
- Extendible Commercial Paper (ECP)
- Guaranteed Investment Certificate (GIC)

Securities which may be issued under the federal *Depository Bills and Notes Act*, or in another format:

- Canada Treasury Bill (CTB)
- Municipal Note (MN)
- Municipal Treasury Bill (MTB)
- Provincial Note (PN)
- Provincial Treasury Bill (PTB)
- U.S. Treasury Bill (UTB)

Attached as Appendix A are guidelines on suggested formats for corporate money market securities.

Authorization

CDS expects that participants issuing money market securities in CDSX have selected specific individuals, taking into account their skill sets, qualifications and experience, have formally authorized these individuals to their functions of SAA, ISIN activator, security validator and custodian and that this authorization process is a part of the standard practice in the participant organization. CDS expects the evidence of these authorizations to be auditable.

CDS expects that the individuals who are authorized to perform the ISIN activator functions and the security validator functions possess a detailed understanding of the money market products so that they can ensure that only the authorized money market products are set up and deposited in CDSX.

CDS also expects that the individuals performing the ISIN activator and the security validator functions have available to them the appropriate standard documents containing the details of the issues and that these documents contain the requisite authorization from front or middle office staff and counterparties, which confirm the authenticity of the issue and its details. CDS accepts that some of these documents and validations may be in electronic format. CDS expects each authorization in the process (the participant organization's front or middle office and the counterparties' as well as other authorizations in the process) and the documents associated with these, in particular the document that substantiates the issue and the data associated with it that is used for input into CDSX, to contain specific details to identify the individual authorizer. The security validator is expected to validate the content and format of the physical certificate prior to confirmation of the deposit in CDSX. CDS expects the evidence of these authorizations to be auditable.

Reconciliation

For money market securities, the participant is acting in two separate roles: as the agent of the issuer of the securities, it maintains the issuer's register (the registrar); as the agent of CDS, it holds in safekeeping the certificates evidencing the issued securities (the custodian).

CDS expects that daily reconciliation is performed between the registrar's systems and the physical certificates deposited in the custodian's safekeeping to ensure that there is no discrepancy between the registrar's books and what is physically held in the custodian's safekeeping. CDS expects any discrepancy to be investigated, resolved or internally escalated. Any discrepancies which remain unresolved overnight must be reported to CDS. The purpose of this reconciliation is to ensure that money market issues created in CDSX are fully supported by the security certificate of the same value held in the custodian's safekeeping and hence support the position on the registrar's systems as reported to CDS by the security validator. This reconciliation is

expected to be formally reviewed and signed off by appropriate representatives of the registrar (the security validator) and the custodian operations of the physical vault.

In addition, also on a daily basis, CDS expects the registrar to reconcile its records to CDS and investigate and resolve any discrepancies in a timely manner and escalate these internally if they remain unresolved overnight.

On an annual basis, CDS requires the custodian to formally reconcile the physical certificates held by it in safekeeping to the registrar's systems in accordance with guidelines set out by CDS.

Monitoring and communication

CDS expects the participants issuing money market securities in CDSX to design and implement periodic monitoring of the money market issuance, processing and safekeeping activities using system reports or other appropriate means in order to identify exceptions in the operations of the key controls and escalate these exceptions to the appropriate level of management. Where breaches are found in the controls, CDS expects the participants issuing money market securities in CDSX to immediately take remedial steps and advise CDS. CDS expects all securities created by the participants issuing money market securities in CDSX in the current monitoring period in which the exception occurred, to be re-examined, to ensure that the securities created in this period are valid, accurately setup and supported by appropriate documentation. CDS expects these exceptions to cover at least the following key controls:

Segregation of duties

Examination of the login IDs of money market functionality users to ensure conformity with standards of segregation of duties.

Personnel, roles and responsibilities and authorization

Examination of money market functionality assigned to users to ensure that the staff have the appropriate qualification and experience to carry out their tasks, and that these individuals have been formally authorized by management to these tasks and to the user IDs in CDSX.

Examination of documentation to ensure that money market issuance and deposits created are supported by appropriate documentation and transactional authorizations in compliance with internally defined standards.

Reconciliation

Examination of the reconciliations performed to ensure that the reconciliations were appropriately reviewed and signed off, appropriately actioned and escalated.

Exceptions

Review of extraction of exceptions data, based on defined criteria; for example, maturities in excess of 13 months, exceptional high values of securities or any other potential triggers that could identify erroneous or fraudulent security deposits.

Appendix A Guidelines for Format of Security Certificates For Corporate Money Market Securities

These guidelines are general advice, based on a review of sample certificates evidencing corporate money market securities in CDSX. For each security, the participant as security validator must ensure that the certificates evidencing the security conform to all applicable legal requirements, including the issuer's charter, the documentation regarding the issuance of the security and any legislative or regulatory requirements.

Disclaimer: Nothing in these standards should be construed as legal advice. Participants should consult their own counsel to ensure that security certificates conform to the terms of each issue, and to the requirements for deposit into CDSX.

general

CDS expects that each money market security will meet the requirements set out below. Potential errors and inconsistencies are listed as a guide to participants to ensure such mistakes are not made.

- certificated
- registered to CDS nominee
 - certificate reads "pay to CDS & Co." or "pay to or to the order of CDS & Co."
 - certificate cannot read "pay to bearer," with "CDS & Co." added
- dated
 - value date, maturity date or payment date is required
 - issue date is best practice
- fully signed
 - certificate must be signed by issuer

- if security is guaranteed by another party, guarantor must sign
- if security is a bankers acceptance, both customer and bank must sign
- additional signature is required if certificate states “this note shall become valid only when countersigned/ authenticated/ manually certified” or words to that effect
- participants should not use old format certificates with outdated mechanical or pre-printed signatures
- ISIN
 - inserting the ISIN on the certificate is a “best practice,” which will assist when reviewing custodial holdings
- clear complete text
 - if pre-printed text is amended, then the inapplicable text must be fully and completely crossed out (examples: a single form for either discount or interest bearing notes; English and French text must correspond)
 - insert information in all blanks (examples: “[blank] hereby promises to pay”; “in lawful money of [blank],” with interest thereon at [blank] %)
 - do not simply over-stamp the information on some other part of the certificate
- additional text
 - certificates (including DBNA certificates) may contain additional material, appropriate to a particular security
 - example: design elements, corporate logos, or text such as

“on presentation and surrender of this note at [address]”

“without grace”

“this instrument does not constitute a deposit that is insured under the Canada Deposit Insurance Act”

“this note shall become valid only when manually countersigned for and on behalf of [maker]”

“this note shall become valid only when manually authenticated”

“this note shall be interpreted by and governed exclusively in accordance with the laws of the Province of Ontario and the federal laws of Canada applicable therein”

“this note has not and will not be registered under the United States *Securities Act of 1933*”

Depository Bills and Notes Act

Money market securities issued under the federal *Depository Bills and Notes Act* must be in a format that meets the requirements of that legislation in addition to the points noted above:

- legend
 - every certificate must include the words “This is a depository bill subject to the *Depository Bills and Notes Act*” or “This is a depository note subject to the *Depository Bills and Notes Act*.”
 - in French, the required legend is “Lettre de dépôt assujettie à la *Loi sur les lettres et billets de dépôt*” or “Billet de dépôt assujettie à la *Loi sur les lettres et billets de dépôt*.”
 - this legend must appear “within the text.” Best practice is that this legend be placed after the promise to pay and above the signatures
- sum certain
 - the principal amount payable must be set out
 - if interest is payable, the exact amount of interest need not be noted, simply the calculation
- fixed date
 - indicate either the exact date of the payment, or the means of determining that date (for example, showing the issue date and providing for payment “X days after issue”).
- legend
 - the obligation must be unconditional
 - a statement that the payment is limited to payment from the assets of a partnership, unincorporated association, trust or estate is not a condition
- no restrictions
 - the certificate must not include words that prohibit negotiation, transfer or assignment of the security or of an interest in it

Sample certificates for a simple depository note and depository bill are attached.

SAMPLE DEPOSITORY NOTE

{ISIN _____}
{Note No. _____}
{Maturity Date _____}
{Issue Date _____}
{NAME OF SERIES OF NOTE}
{example: Deposit Note}

[MAKER] {for value received / in consideration of a deposit received}
promises to pay to {or to the order of} CDS & Co.
on [payment date] {or "on the Maturity Date"}
the sum of \$ _____ dollars
in lawful money of Canada / the United States of America
{together with interest thereon ...}

This is a depository note subject to the Depository Bills and Notes Act.

[MAKER]*
By: _____
{Authorized Signature}
By: _____
{Authorized Signature}

** the maker is the issuer*
Note: use of { } indicates commonly used text which is optional.

SAMPLE DEPOSITORY BILL

{ISIN _____}
{No. _____}
{Due Date _____}
{Issue Date _____}

To [ACCEPTOR]
On [payment date] {for value received}
pay to {or to the order of} CDS & CO.
the sum of \$ _____ dollars
in lawful money of Canada / the United States of America

This is a depository bill subject to the Depository Bills and Notes Act

[DRAWER]*
By: _____
{Authorized Signature}
By: _____
{Authorized Signature}

ACCEPTED
{date _____}

[ACCEPTOR] **
By: _____
{Authorized Signature}
By: _____
{Authorized Signature}

** the drawer is the issuing participant's customer*
*** the acceptor is the issuer/ participant*
Note: use of { } indicates commonly used text which is optional.

Annual Money Market Participant Certification

The confirmation letter to be provided by each participant must be in a form acceptable to CDS, and substantially in the form set out below.

Dear _____

CDS expects each participant issuing money market instruments in CDSX to maintain minimum standards of internal controls on money market issuance and deposit processes and perform periodic reviews, so that its management can satisfy itself of the continuing adequacy of its internal controls. CDS has issued a document entitled Minimum Internal Control Standards on Money Market Securities Issuance (*Standards*) which sets out CDS's expectations on minimum standards for these internal controls at the participant organizations. The Minimum Internal Control Standards on Money Market Securities Issuance can be found on www.cds.ca.

As a CDS participant with access to money market functionality, you are asked to provide certification in respect of the money market processes and controls established by you. You should place a check mark beside each of the items listed below to indicate certification. This certification covers the one calendar year from _____ (dd/mm/yyyy) to _____ (dd/mm/yyyy). The signatories at the end of the list of certification items should be the executives (or equivalent) responsible for the areas shown in the signatory section.

If you are unable to certify any of the items below, provide additional information as to the reasons for this and your proposed action plans to address the issue(s).

The participant certifies as follows:

1. Participant's eligibility

1.1. The participant, while acting in its capacity as issuer or agent for issuer(s) of money market securities which are set up in CDSX, represents and warrants to CDS and to all other participants that its actions are within its capacity and within the scope of the authorization received from the issuer(s).

1.2. The participant, while acting in its capacity as ISIN activator, security validator and custodian, meets the qualification standards set out in the CDS Participant Rules.

2. High-level control evaluation

2.1. The participant has performed at least an annual review that is designed to identify control gaps in relation to its roles in money market processes and is not aware of any adverse unresolved control gaps in its money market processes.

2.2. The participant has escalated any issues it has found as a result of the high-level control evaluation to its management for review and resolution in accordance with its operational policies and procedures.

3. Control environment

3.1. The participant has established control environment principles and policies for its various roles associated with its money market processes and these are consistent with the *Standards*.

** Additional evidence – the participant may be requested to provide CDS with a copy of the principles and policies covering its money market processes.

4. Control activities

Roles and responsibilities

4.1. The participant has documented specific controls applicable to its money market processes and these address at least the following areas as set out in the *Standards*: Roles and Responsibilities, Authorization and Reconciliations.

4.2. Individuals within the participant organization who perform the role of ISIN activator for a money market security ensure that the particular ISIN applies to that security, that the particular ISIN created in CDSX reflects the attributes of the underlying security and that entries in CDSX describing that security are accurate and complete.

4.3. Individuals within the participant organization who perform the role of security validator ensure that the entries describing the security are accurate, that each certificate or other instrument evidencing such security have been duly authorized, executed and issued by the issuer for the security, and that each certificate or other instrument evidencing such security is genuine and in proper legal form.

Authorization

4.4. The participant has appointed specific individuals to perform different roles in relation to a money market security, taking into account their skill sets, qualifications and experience to perform the respective role for the

money market processes and controls.

4.5. The participant has formally authorized individuals to execute their functions as service access administrator (SAA), ISIN activator, security validator and custodian.

4.6. The participant has assigned individuals to the tasks in 4.5 as part of its standard corporate practice.

Reconciliations

4.7. The participant reconciles its registrar records daily to the physical securities deposited in the custodian's vault and investigates, escalates and resolves discrepancies in a timely manner.

4.8. The participant reconciles its registrar records to CDS on a daily basis and investigates and resolves any discrepancies in a timely manner. The participant escalates these internally if they remain unresolved overnight.

** Additional evidence –

a. The participant may be requested to provide CDS with samples supporting the controls applicable to Roles and Responsibilities.

b. The participant may be requested to periodically reconcile the nominal/units positions of the securities held in its vaults with CDS records.

5. Monitoring and communication

5.1. The participant has designed and implemented a process for periodic monitoring of money market processes in order to identify exceptions in the operation of key controls. The participant also has a process for escalating the exceptions to the appropriate level of management for resolution and for documenting the exceptions internally and to CDS, and this monitoring process addresses at least the following areas (as set out in the *Standards*): Personnel, Roles and Responsibilities, Authorization, Reconciliations and Exceptions.

Segregation of Duties

5.2. The participant periodically reviews login IDs of individuals in CDSX with respect to their roles of SAA, ISIN activator, security validator and custodian, and ensures that these conform to the *Standards*.

Personnel, Roles and Responsibilities, and Authorization

5.3. The participant periodically reviews the qualification and experience of staff who carry out money market processes. Such reviews shall include verification that these individuals have been formally authorized by management to undertake these tasks and to confirm the user IDs in CDSX.

5.4. The participant periodically reviews money market issues and deposits in CDSX to verify that these are supported by appropriate documentation and transactional authorizations in compliance with its internally defined standards.

Reconciliations

5.5. The participant periodically reviews the performance of the money market reconciliations to verify that the daily/periodic reconciliations performed in the control activities were appropriately reviewed, signed off, actioned and escalated.

Exceptions

5.6. The participant periodically extracts and reviews exception data based on internally-established criteria that could identify erroneous or fraudulent deposits of money market securities.

Signatory Name: _____ Signatory Title: _____
Compliance Office

Signature: _____ Date: ____

Signatory Name: _____ Signatory Title: _____
Internal Audit

Signature: _____ Date: ____

Signatory Name: _____ Signatory Title: _____
Operations Control

Signature: _____ Date: ____

Signatory Name: _____ Signatory Title: _____
Authorized Signing Officer

Signature: _____ Date: _____

Annual Custodian Certification

The confirmation letter to be provided by each participant must be in a form acceptable to CDS, and substantially in the form set out below.

Dear _____

CDS has appointed (name of institution) to act as its custodian of physical securities. Accordingly, CDS requires the custodian to apply, at minimum, the level of duty of care set out in the CDS Participant Rules. Included in this form is the Guidelines for Custodian Compliance which sets out the custodian's obligations of duty of care of CDS's physical certificates and CDS's requirements for the annual reconciliation of the physical certificates.

In your capacity of CDS's custodian of physical securities, you are required to certify compliance with:

1. The principles of duty of care as described below, and
2. The standards of the annual reconciliation between the physical securities held in your safekeeping and the registrar's records.

You should place a check mark beside each of the items listed below to indicate certification. This certification covers the one calendar year from _____ (dd/mm/yyyy) to _____ (dd/mm/yyyy). The signatories at the end of the list of certification items should be the executives (or equivalent) responsible for the areas shown in the signatory section.

If you are unable to certify any of the items below, provide additional information as to the reasons for this and your proposed action plans to address the issue(s).

The custodian certifies as follows:

Duty of care

The custodian applies, at all times, the same standard of care when dealing with CDS's securities that the custodian applies to its own securities. CDS's securities are provided the same environment and security that the custodian maintains for its own securities. Furthermore, CDS's security certificates are kept in an environment and to a level of security that conform to such industry, national and international standards to be expected of a professional provider of such service.

The custodian has documented minimum standards of format and content for security certificates and these standards conform to industry, national and international standards as well as to applicable legislation. Furthermore, these minimum standards are consistent with the CDS Participant Rules and procedures applicable to the custodian from time to time.

The custodian has implemented controls to ensure that certificates presented to the custodian for safekeeping are checked by its staff before acceptance, to ensure conformity to these minimum standards. The certificates which do not conform to these standards are reported to the security validator and to CDS immediately. Prior to accepting a certificate for safekeeping, the custodian's due diligence checks include at a minimum:

- Certificate format – ensuring that the certificate is original, signed and registered to CDS's nominee name, CDS & Co.
- Certificate content – ensuring that the certificate ISIN, issuer legal name and quantity match the deposit instruction from the security validator.

Annual reconciliation process

The custodian certifies that the annual reconciliation between the physical securities held in the custodian's safekeeping and the registrar's records as at _____ (dd/mm/yyyy) was performed and recorded in accordance with the reconciliation standards below:

The custodian's compliance or audit department reviewed the reconciliation procedure (including the counting, recording process and internal escalation process) and in their opinion the procedure is appropriate for this purpose. A blind count (or other suitable process) was used to ensure that both "overs" and "unders" were accounted for and the counting procedure also included the due diligence check of the security certificate's format described under the duty of care section above.

The reconciliation is performed at the same time each year.

The reconciliation statement was reviewed and signed off by the custodian's compliance or audit department and by the signing officer. Followup reconciliation statements will be sent to CDS each week until all reconciling

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securities are fully explained or exceptions cleared.

The custodian's compliance or audit staff checked and evidenced that the reconciliation statement agrees to the supporting documents (e.g., count sheets and the registrar's records) and that the reconciliation statement identifies all out of balance ISINs and details all actions taken and proposed.

The physical count and its recording were performed under the oversight of the custodian's compliance or audit departments.

Signatory Name: _____ Signatory Title: _____
Compliance Office

Signature: _____ Date: _

Signatory Name: _____ Signatory Title: _____
Internal Audit

Signature: _____ Date: _

Signatory Name: _____ Signatory Title: _____
Operations Control

Signature: _____ Date: _

Signatory Name: _____ Signatory Title: _____
Authorized Signing Officer

Signature: _____ Date: _____

Guidelines for Custodian Compliance

1. Background

CDS appoints an institution to act as its custodian of physical securities. Accordingly, CDS requires the custodian to apply, at minimum, the level of duty of care set out in the CDS Participant Rules. The Duty of Care (Rule 6.4.4 (e)) and Liability of Domestic Custodian (Rule 6.4.4 (f)) are included in the appendix to this document.

2. Custodian's certification of compliance with principles of duty of care

The custodian must provide to CDS its certification of compliance with the principles of duty of care. This certification must be submitted at the same time that the custodian submits its annual securities reconciliation statement to CDS, as described in section 3.

The key principles of a custodian's duty of care include, but are not limited to, the following:

- A custodian must apply the same standard of care when dealing with CDS's securities that a custodian applies to its own securities. Therefore, CDS's securities must be provided the same environment and security that the custodian maintains for its own securities. Furthermore, CDS's security certificates must be kept in an environment and to a level of security that conform to such industry, national and international standards to be expected of a professional provider of such service.
- A custodian must ensure that it has defined minimum standards of format and content for security certificates and that these standards conform to industry, national and international standards as well as to applicable legislation, and that these minimum standards are consistent with the CDS Participant Rules and procedures applicable to the custodian from time to time.
- A custodian must implement controls to ensure that certificates presented to the custodian for safekeeping are checked by its staff before acceptance to ensure conformity to these minimum standards. The certificates that do not conform to these standards are reported to the security validator and to CDS immediately. Prior to accepting a certificate for safekeeping, the custodian's due diligence checks must include at a minimum:
 - Certificate format – ensuring that the certificate is original, signed and registered to CDS's nominee name, CDS & Co.
 - Certificate content – ensuring that the certificate ISIN, issuer legal name and quantity match the deposit instruction from the security validator.

From time to time, CDS may additionally require the custodian to demonstrate the proper function of its custodial duties in compliance with the CDS Participant Rules.

3. Custodian's reporting of reconciliation of physical securities

The custodian is required to perform an annual reconciliation between the physical securities held in the custodian's safekeeping and the security validator's register (*register*) in accordance with the reconciliation standards (section 3.1). The 'as at' date of reconciliation is mutually agreed between the custodian and CDS. On completion of this annual reconciliation, the custodian must provide CDS with the following:

1. Certification of the custodian's compliance with the reconciliation standards (section 3.1) and
2. The reconciliation statement (section 3.2).

3.1 Standards required for the annual reconciliation process

- The custodian's compliance or audit department reviews the reconciliation procedure (including the counting, recording process and internal escalation process) and provides a statement to CDS that in their opinion the procedure is appropriate for this purpose. A blind count is highly recommended to ensure that both "overs" and "unders" are accounted for. The count procedure should also include a due diligence check of the security certificate's format described in the principles (section 2).
- The reconciliation is performed annually at the same time each year.
- The reconciliation statement is reviewed and is signed off by the custodian's compliance or audit department and by the signing officer. Followup reconciliation statements are sent to CDS each week until all reconciling securities are fully explained or exceptions cleared.
- The custodian's compliance or audit staff checks and evidences that the reconciliation statement agrees to the supporting documents (e.g., count sheets and the *register*) and that the reconciliation statement identifies all out-of-balance ISINs and details all actions taken and proposed.
- The physical count and its recording are performed under the oversight of the custodian's compliance or audit department.

3.2. Minimum contents required in the reconciliation statement

CDS does not prescribe a specific format for the reconciliation statement. However, it expects the following minimum content to be included in the reconciliation statement, as illustrated in the sample format below:

Date of reconciliation: dd/mm/yyyy

- 1. Balance (quantity) according to count sheets: XX
- 2. Balance (quantity) according to *register*: YY
- 3. Difference (1) – (2): ZZ
- 4. Detailed breakdown of (3):
 - 4.1 List of all ISINs that make up the difference with reasons and actions taken/proposed
 - 5. Signatures of the signing officer and custodian’s compliance or audit representative

4. CDS’s inspection of sample of securities held by the custodian

This section sets out CDS’s requirements in respect of CDS’s annual due diligence review of security certificates held by the custodian. This exercise may be carried out at the same time as sections 2 and 3 or at a separate mutually agreed date between CDS and the custodian.

Annually, CDS will provide the custodian with a list of ISINs, for which the custodian will furnish CDS with a copy of each security certificate. The sample selection made by CDS may vary each year and is based on its internal sample selection criteria.

CDS will inspect the copies of the security certificates received to ensure that the certificates conform to the duty of care standards applicable to the format and content of security certificates described in the principles (section 2).

If, upon the initial inspection of securities, CDS determines that the quality of certificate(s) it has inspected is unsatisfactory, it may require the custodian to provide a further sample or may determine that another course of action is needed, including performing a full review or audit of the custodian’s custody processes and controls function.

4.1. Example of sample selection instruction

For the following listed ISINs, provide photocopies of the security certificates held in your safekeeping on behalf of CDS:

ISIN
XXXXXXXXXX
YYYYYYYYYY
ZZZZZZZZZZ

Appendix

Participant Rules 6.4.4

(e) *Duty of Care*

In performing its obligations to CDS as Domestic Custodian, the Domestic Custodian shall exercise the same degree of care and skill as it applies in the handling of its own property of a similar kind and value. If the Domestic Custodian insures its own like property, the Domestic Custodian shall maintain policies of insurance against the loss, theft, disappearance, damage, destruction or misappropriation of any certificate or instrument evidencing a Security in the possession or control of the Domestic Custodian, in the policy amounts that it maintains with respect to its own like property.

(f) *Liability of Domestic Custodian*

The Domestic Custodian shall be liable to CDS for and shall indemnify and save and hold CDS harmless from and against any loss, damage, claim, suit or expense, including the fees and expenses of any legal counsel retained by CDS, arising from or occasioned by (i) the loss of any certificates or other instruments evidencing Securities held by the Domestic Custodian on behalf of CDS; or (ii) the negligent or wrongful acts of the itself or its directors, officers or employees in the performance of its duties to CDS under this Rule 6.4.4. The appointment by the Domestic Custodian of an agent or subcustodian shall not limit the liability of the Domestic Custodian to CDS, and the Domestic Custodian shall be liable to CDS for any act or failure to act by its agent or subcustodian as if it were the act or failure to act of the Domestic Custodian.