

13.1.4 CDS Notice and Request for Comments – Material Amendments to CDS Procedures Relating to CCP Collateral Requirements for Withdrawing Participant

THE CANADIAN DEPOSITORY FOR SECURITIES LIMITED (CDS)

MATERIAL AMENDMENTS TO CDS PROCEDURES

CCP COLLATERAL REQUIREMENTS FOR WITHDRAWING PARTICIPANT

REQUEST FOR COMMENTS

A. DESCRIPTION OF THE PROPOSED AMENDMENTS

The current Survivor Withdrawal option allows a CDS Participant to withdraw from a Central Counterparty (CCP) service by providing an additional four hundred percent (400%) of their current collateral requirement to the CCP service Participant Fund. The proposed amendment to CDS Procedures is intended to maintain a level of protection against a potential collateral shortfall comparable to the current level, taking into account recent changes to the collateral calculation for CCP services, by increasing the withdrawal collateral contribution to five hundred percent (500%) of a Participant's current collateral requirement. The proposed amendment has been reviewed and approved by CDS' Risk Advisory Committee.

B. NATURE AND PURPOSE OF THE PROPOSED AMENDMENTS

The proposed amendment to the survivor withdrawal collateral requirement is requested subsequent to a recent change in the collateral calculation for CCP services. The change to the collateral calculation resulted in an expected reduction in Participant collateral requirements of between 20% and 30%. CDS has determined that requiring a withdrawing survivor to contribute 500% of their current collateral requirement to the CCP service Participant Fund will provide protection against un-collateralized losses to the Participant Fund that is comparable to the current level of protection against such an event.

C. IMPACT OF PROPOSED AMENDMENTS

The proposed amendment will increase the survivor withdrawal collateral requirement by 25%. This increased withdrawal collateral burden is effectively set-off against the 20% to 30% reduction in CCP service collateral requirements. The increase is necessary in order to provide a high degree of certainty that the CCP service Participant Funds will be able to cover un-collateralized losses. For instance, a situation may arise in which the default of a single Participant results in the withdrawal of all surviving members of that CCP service. In such an event, losses would have to be covered by a) the collateral of the defaulting Participant, b) the collateral and withdrawal collateral of the surviving Participants, and c) available collateral. Testing by CDS' Risk Management department has determined that, at the reduced collateral levels resulting from the 2005 amendment to the collateral requirements calculation, a 400% withdrawal contribution would provide sufficient coverage for only 85% of all stress events. A 500% withdrawal contribution will provide such coverage for 91% of all stress events, and the protection is bolstered by the conservative assumptions inherent to the analysis.

D. DESCRIPTION OF THE PROCEDURE DRAFTING PROCESS

CDS is recognized as a clearing agency by the Ontario Securities Commission pursuant to Section 21.1 of the Ontario Securities Act and as a self-regulatory organization by the Autorité des marchés financiers pursuant to Section 169 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".

CDS Procedure Amendments originate from a number of sources, both internal and external, and may be standalone or consequential amendments. Standalone amendments are most often require as a result of internal systems changes or service enhancements, while consequential amendments stem from amendments to CDS Participant Rules and/or other regulatory requirements. All CDS Procedure Amendments are reviewed and approved by CDS' Strategic Development Review Committee prior to regulatory approval.

E. IMPACT OF PROPOSED AMENDMENTS ON TECHNOLOGICAL SYSTEMS

CDS has determined that the proposed amendments will have no impact on its technological systems or those of its Participants.

F. COMPARISON TO OTHER CLEARING AGENCIES

Participants who use CDS services must be a member of a Fund established for that Function, and is a part of a Fund Credit Ring. Further, depending on a Participant's category, it must also be a member of a Category Credit Ring. In this way, the Risk of default within a Fund or Category Credit Ring is reduced. The unique structure of CDS' risk model, however, reduces the utility of a comparison to the risk mitigation strategies of other clearing agencies whose own risk model may differ significantly from CDS'.

G. PUBLIC INTEREST ASSESSMENT

In analyzing the impact of the proposed amendments to the Participant rules, CDS has determined that the implementation of these amendments would not be contrary to the public interest.

H. COMMENTS

Comments on the proposed amendments should be in writing and delivered by July 10, 2006 and delivered to:

Tony Hoffmann
Legal Counsel
The Canadian Depository for Securities Limited
85 Richmond Street West
Toronto, Ontario M5H 2C9

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

A copy should also be provided to the Ontario Securities Commission by forwarding a copy to:

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

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

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

I. PROPOSED PROCEDURE AMENDMENTS

Appendix "A" contains text of current CDS Participant Procedure marked to reflect proposed amendments as well as text of these procedures reflecting the adoption of the proposed amendments.

J. QUESTIONS

Questions regarding this notice may be directed to:

Tony Hoffmann
Legal Counsel
The Canadian Depository for Securities Limited
85 Richmond Street West
Toronto, Ontario M5H 2C9

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

JAMIE ANDERSON
Senior Legal Counsel

APPENDIX "A"

PROPOSED RULE AMENDMENT

Text of CDS Participant Rules marked to reflect proposed amendments	Text CDS Participant Rules reflecting the adoption of proposed amendments
<p>17.1 CCP survivor withdrawal</p> <p>The CCP survivor withdrawal option is a mechanism that enables participants in a central counterparty service to limit the loss allocation they are responsible for by withdrawing from the service when one or more members of the service defaults. This option is applicable only in the event of a default and does not affect the normal non-default withdrawal of a participant from a central counterparty service.</p> <p>The following rules and restrictions govern a survivor's withdrawal from a central counterparty service:</p> <p>...</p> <ul style="list-style-type: none"> • A participant must pledge an additional 400<u>500</u> per cent of their collateral requirement in that CCP service to CDS on the day of withdrawal. <p>...</p> <p>Following a default:</p> <p>...</p> <p>4. By 1:00 p.m. ET (11:00 a.m. MT, 10:00 a.m. PT) on the effective date of withdrawal, the participant must deliver the required collateral (the current business day's requirement plus the special margin amount) owed to CDS in the Collateral Management System. The special margin amount is four<u>five</u> times the current business day's collateral requirement for the service the participant is withdrawing from.</p> <p>...</p>	<p>17.1 CCP survivor withdrawal</p> <p>The CCP survivor withdrawal option is a mechanism that enables participants in a central counterparty service to limit the loss allocation they are responsible for by withdrawing from the service when one or more members of the service defaults. This option is applicable only in the event of a default and does not affect the normal non-default withdrawal of a participant from a central counterparty service.</p> <p>The following rules and restrictions govern a survivor's withdrawal from a central counterparty service:</p> <p>...</p> <ul style="list-style-type: none"> • A participant must pledge an additional 500 per cent of their collateral requirement in that CCP service to CDS on the day of withdrawal. <p>...</p> <p>Following a default:</p> <p>...</p> <p>4. By 1:00 p.m. ET (11:00 a.m. MT, 10:00 a.m. PT) on the effective date of withdrawal, the participant must deliver the required collateral (the current business day's requirement plus the special margin amount) owed to CDS in the Collateral Management System. The special margin amount is five times the current business day's collateral requirement for the service the participant is withdrawing from.</p> <p>...</p>