

CDS Clearing and Depository Services Inc. (CDS®)

MATERIAL AMENDMENTS TO CDS RULES

CHINA BOND LINK

REQUEST FOR COMMENTS

A. DESCRIPTION OF THE PROPOSED CDS RULE AMENDMENTS

CDS's strategic goals include the enhancement of its role as a gateway between Canada's capital markets and foreign capital markets, and to enhance the efficiency and cost-effectiveness of the clearing and settling of eligible securities for market participants CDS serves. In furtherance of this goal, CDS has, and maintains, unilateral and bilateral links with central securities depositories ("CSDs"), including links with CSDs in the United States (bilateral), and France and Sweden (unilateral). Where CDS believes it to be financially viable, and feasible from a systemic risk control perspective, CDS continues to develop links to additional depositories in foreign markets. These links are intended to provide Participants with control, ease of access, and market efficiency at competitive rates, when transacting in those markets.

CDS has been developing a unilateral fixed income clearing and settlement link (the "China Bond Link" or "CBL") with the Shanghai Clearing House ("SHCH"). SHCH is a central securities depository for corporate fixed income securities which is approved and regulated by the People's Bank of China ("PBC"), is a Qualified Central Counterparty ("QCCP"), and has and continues to make required disclosure with respect to their compliance with the Principles for Financial Market Infrastructures (the "PFMIs", issued by the Committee on Payments and Markets Infrastructures (the "CPMI") and the International Organization of Securities Commissions ("IOSCO")). In addition to SHCH's role as a central securities depository, SHCH's principal business lines include the registration, custody, clearing, settlement, and delivery of fixed income securities, and margin and collateral management for direct and indirect RMB and foreign currency transactions and derivatives transactions.

CDS intends to become a settling member of SHCH, subject to approval of this new CSD-to-CSD link by our domestic principal regulators, to similar approval by the PBC, and subject to the establishment of appropriate legal documentation and processes. The review and approval process will give CDS, our principal regulators, and prospective users of the link, comfort with respect to the link's compliance with the key considerations of PFMI #20 – *FMI Links*. CDS will offer CBL to facilitate the settlement, by and in SHCH, of Transactions in certain Chinese securities ("Bonds Under Custody"), howsoever made, by Participants with members of SHCH, in RMB.

The proposed amendments to the CDS Participant Rules implement the China Bond Link describe the custodial account structure and the settlement process and specify the roles, responsibilities, rights, and obligations of CDS and of CDS Participants electing to use the link.

CDS will open an aggregate, omnibus account at SHCH on behalf of all CDS participants using the CBL Service (the "SHCH Nominee Holding Account"). SHCH will not open or maintain separate accounts for CDS clients; rather, CDS will act as a nominee and will segregate the securities in discrete accounts for its clients (the "CBL Accounts").

SHCH, and its regulators, will only be provided with the transaction details and the security balance of foreign institutional investors on a per-Participant basis, and as a whole, and will not have access, via CDS, to information related to the identities or securities balance of each beneficial holder.

Foreign Institutional Investors ("FIIs", the term used by SHCH and the PBC to distinguish such institutional investors from Domestic Institution Investors ("DIIs" in mainland China) who are CDS Participants will be able to settle trades in eligible Chinese fixed income securities via CBL, functionality for which will be made available through their CDS participation. FIIs who are not Participants and, therefore, do not fall under any eligible CDS Participant category, may access the CBL by engaging an active CDS Participant pursuant to the CDS Participant Rules and according to CBL eligibility requirements.

CDS's SHCH Nominee Holding Account at SHCH will be used:

1. To deposit the aggregate position of Chinese bond positions held by FIIs using CBL.
2. As the bond settlement account at SHCH for transactions submitted by FIIs for settlement via CBL. SHCH will debit and credit this account.

Reporting and Supervisory Requirements for CDS SHCH Nominee Holding Account positions and Consent to Disclose.

The market supervisory and regulatory structure in the People's Republic of China is more centralized than in the Canadian marketplace. SHCH, and the DIIs, are all regulated by, and registered with, the PBC. The PBC requires that SHCH members, and DIIs, report their transactions and positions to the PBC on a continuous basis. As a result of CDS's membership at SHCH, all onshore market activity for CDS participants in respect of transactions and instruments deposited by SHCH to the CDS SHCH Nominee Holding Account will be visible to SHCH and to SHCH's regulators, the PBC. Proposed Rule 14 – CBL includes specific acknowledgement that CDS may disclose the foregoing information to SHCH, provided that such information will only be disclosed for purposes of such regulatory oversight, and will be maintained in strict confidence by SHCH pursuant to the terms of CDS's membership.

CDS will provide SHCH with a nightly "Holders of Record" report (which report is a standard report in the CDS context) which specifies the positions and allocation of the securities held in the CDS SHCH Nominee Holding Account amongst CDS's participants. This report will indicate the end-of-day holdings for each Chinese bond eligible for the linkage on a per-participant basis. Accordingly, the total Bonds Under Custody in the CDS SHCH Nominee Holding Account will reconcile with the aggregate positions in the CBL Accounts maintained by CDS. The Holders of Record reports will not be required to include beneficial owner or other personal information.

Securities Settlement

The service will be supported outside of CDSX, in a Graphical User Interface (GUI) Web-based application; CDSX does not currently support payments in RMB, and CBL will not be linked to, or form a part of, CDSX. The architecture of the CBL system, pursuant to which trades processed by CBL will settle Trade + 1 (T+1), will include the development of new payment and settlement message, and will include functionality which will allow Participants to view their daily transactions, including ledger balances, transactions, and settled transactions.

Each user of the service will be required to set up a RMB account with their financial institution. CDS itself intends to establish an RMB settlement account with Industrial Commercial Bank of China (ICBC) Canada.

North American Buy Trade Processing (CDS Participant is the Buyer)

It is critical to note that the following settlement messages are transmitted only on a trade-by-trade basis. When ICBC Canada receives a notification of settlement from CDS, ICBC Canada will proceed to confirm settlement only if CDS has provided ICBC Canada with authorization to debit our RMB account for each confirmed trade.

1. Immediately upon confirming a CBL trade, a Participant/buyer will be required to pre-fund CDS's RMB account at ICBC Canada by wiring the funds, during Canadian business operating hours, from their RMB account.
2. ICBC Canada will send CDS a credit notification message confirming that the funds have been wired into CDS's RMB account. Only once this confirmation message from ICBC Canada is received by CDS will CDS send a confirmed trade message to SHCH to effect settlement on the morning of T+1, Chinese time.

3. SHCH will secure the seller's securities position associated with the confirmed trade. Once the securities position is secured, SHCH will send a settlement notification message to CDS; this message will reference the funds settlement instruction that SHCH transmits to the Chinese Cross-Border Interbank Payment System ("CIPS") to effect the funds transfer from CDS's ICBC Canada RMB Account.

North American Sell Trade Processing (CDS Participant is the Seller)

North American sell trade processing is effected in substantially similar fashion as North American buy trade processing,

1. Once a DII/buyer confirms a trade, SHCH will secure the position in CDS's SHCH Nominee Holding Account.
2. SHCH will then send a settlement instruction to CIPS; the DII/buyer's account settlement account will be debited, and CDS' RMB account at ICBC Canada will be credited.
3. A settlement notification will be sent to CDS by SHCH and ICBC Canada will send a credit notification to CDS to signal the receipt of the funds, at which time CDS will advise ICBC Canada to wire the RMB to the CDS Participant's account at the Participant's banker.

Cash Settlement

CDS intends to engage the services of an existing Schedule II Canadian bank which, under phase 2 of CIPS (a centralized cash settlement system analogous to the Canadian Large Value Transfer System ("LVTS") or Fedwire in the United States, but specifically for the settlement of international transactions), will support cross-border RMB settlement. CDS intends to enter into a commercial banking arrangement with ICBC Canada, a CIPS member resident in Canada, and open one or more accounts denominated in RMB. These accounts will be operational accounts used for purposes of settling transactions facilitated by CBL itself; these accounts, like CDS's settlement account at the Bank of Canada, are not intended to maintain any overnight balance, which would otherwise expose CDS to bankers' risk. Under CIPS, payment in RMB for securities purchased, or as consideration for securities sold, may flow from CDS's RMB account to the account of the DII counterparty.

B. NATURE AND PURPOSE OF THE PROPOSED CDS RULE AMENDMENTS

The CBL Service, governed by new Rule 14, will give Canadian participants the ability to settle securities transactions through SHCH's settlement system. Currently, FIIs must settle fixed income transactions in China using an agent. The CBL Service provides Canadian FIIs with the ability to choose to settle transactions using their existing participation in CDS, thereby avoiding the potential delay and expense of using a domestic/onshore agent in mainland China. Instructions to CDS will be input directly into CBL by the CDS participant, and the Participant will be able to use the CBL interface throughout CDS's operating hours without having to allow time to transmit instructions to its agent, who must then re-input the data into the SHCH system. (Rule 14.1)

Select CBL Rules

- CBL enables access to the settlement services provided by SHCH, and transactions are settled at and in SHCH. SHCH will send CDS information on entitlement events with respect to the securities held by Participants, which CDS will send to Participants (Rule 14.1.1).
- Each participant must apply to CDS to be accepted as a CBL Participant (Rule 14.1.3). Each participant must be accredited by the People's Bank of China as a Foreign Institutional Investor (FII) and will appoint a Designated CBL Banker to pay or receive settlement funds for each transaction in RMB (Rule 14.1.3).
- CDS will become a member of SHCH and will be required to comply with the terms of that membership, including choice of law and submission to jurisdiction (Rule 14.1.4).

- Pursuant to CDS's membership in SHCH, CDS will be required to provide transaction and position details to SHCH and to Chinese regulatory authorities, and Participants provide explicit consent to such reporting requirements. (Rule 14.1.4(e))
- SHCH maintains an SHCH Nominee Holding Account for CDS within which CDS holds securities on behalf of CDS Participants (as FIIs) or on behalf of Participant Clients (as FIIs). (Rule 14.2)
- SHCH provides real-time settlement on a delivery-versus-payment basis. There is no netting of settlement obligations against a central counterparty; each transaction is settled one-on-one real time, with payment in full and delivery of the full amount of the securities. (Rule 14.3)
- Payments for securities purchased or sold via transactions entered into CBL must be made or received by a Participant or a Participant's Designated CBL Banker in RMB (Rule 14.6.3).
- Any SHCH charges must be reimbursed to by Participants, and CDS may monitor the level of charges payable by a participant and require a prepayment if necessary (Rule 14.9).

As no value is held or exchanged within CBL itself, CDS does not incur settlement risk arising from the transactions confirmed by CBL Participants. As a result, there is no need for CBL Participants to pledge initial collateral to support participant obligations, to provide contributions to a participant fund for the CBL Service, or to provide mutual guarantees through a credit ring.

Notwithstanding the foregoing:

- In addition to the indemnities by Participants for CDS Services generally, CBL Participants shall indemnify CDS for their use of CBL (Rule 14.10). This indemnity is similar to that which is granted in CDS's favour by Participants using the Cross-Border Services (Rule 10.2.8).
- While CDS is not contractually bound by its membership in SHCH to assume a portion of SHCH's potential future losses, Participants using CBL may be required to assume a *pro rata* portion of any such losses, should they occur (Rule 14.11).
- CBL Participants grant a security interest in favour of CDS in respect of the securities which CDS holds, on a CBL Participant's behalf, in the SHCH Nominee Holding Account (Rule 14.4.1). In addition, CDS may from time to time request that a CBL Participant deliver CBL Specific Collateral if, in CDS's view, such a request is prudent to ensure due discharge of a CBL Participants obligations to CDS.

Rule 1.1.1 has been revised to refer to Rule 14 – China Bond Link

Rule 2.4.11 has been added to refer to Rule 14 – China Bond Link

Rule 2.7.1 has been revised to make it clear that CDS can restrict a participant's use of the CBL Service if the participant does not fulfil its obligations.

Rule 5 – Risk Management has been consequentially amended to include reference to CBL Specific Collateral, where applicable.

The Rules governing suspension also apply to all participants, including those using the CBL Service (Rule 14.15.1).

C. IMPACT OF THE PROPOSED CDS RULE AMENDMENTS ON CDS AND ON CDS PARTICIPANTS

The CBL Service has been developed separately and apart from CDS' core/key services (clearing and settlement of Canadian fixed income and equity securities) and is not expected to have legal, operational, or risk-related impacts on existing CDS Rules, current CDS Participants, their service providers, or on CDS itself as an FMI. Proposed Rule 14 has been drafted to ensure transparency for the users of CBL, and clarity with respect to both the rights and obligations which CBL Participants assume upon applying to use the CBL Service.

CDS anticipates that impact of the proposed service and consequential proposed Rules to be economically positive insofar as CBL is intended to provide the Canadian investment community with a more efficient and lower cost means of access to the Chinese fixed income market. The nature of the CBL Service will also allow CDS to broaden its service offering to our customers while continuing to minimize the risk and exposure for CDS.

Finally the CBL Service generally aligns with Canada's general strategy to facilitate bilateral trade with China and expand trade and investment with growing markets, including China.

C.1 Competition & Conflict of Interest Analysis

No CDS Participant will be disadvantaged or otherwise prejudiced with the introduction of these changes, and access to the CBL Service will be open to full service CDS Participants who satisfy the reasonable eligibility and systems compatibility requirements for use of the CBL Service, including a Participant's registration as an FII, if applicable.

CDS has reviewed the impact of proposed Rule 14 with respect to any specific or differential impact on the Canadian Derivatives Clearing Corporation (CDCC) as both a CDS Participant and as a Third Party Clearing System. CDCC is not impacted by the new Rule in either capacity.

C.2 Risks and Compliance Costs

The proposed Rule amendments are not expected to result in any direct compliance costs for CDS, its Participants, or other market participants; The CBL service will provide reporting to SHCH and SHCH's regulators in the normal course.

C.3 Comparison to International Standards – (a) The Committee on Payments and Market Infrastructures of the Bank for International Settlements, (b) Technical Committee of the International Organization of Securities Commissions, and (c) the Group of Thirty

Observance of PFMI standards is a requirement under CDS' recognition orders as well as under National Instrument 24-102 (Clearing Agency Requirements) and related Companion Policy 24-102CP. The proposed amendments have been evaluated against, and do not affect CDS's observance of and compliance with, these standards.

D. DESCRIPTION OF THE RULE DRAFTING PROCESS

D.1 Development Context

Proposed Rule 14 was developed with reference to two principal sources: the existing Cross-Border Rule in the CDS Participant Rules (Rule 10), and the rule previously incorporated into the CDS Participant Rules related to the CREST Link, which rule was subsequently redacted upon the decommissioning of the CREST Link as a CDS Service.

Consequent to the terms and conditions of the membership agreement between CDS and SHCH, and in order to ensure transparency, proposed Rule 14 incorporates material rights and obligations stemming from that membership into the text of the proposed Rule. CDS intends that its role as a financial intermediary be well defined, clear, and limited in scope such that CDS Participants who apply to use, and use, CBL will be entirely aware of their obligations under, and the risks associated with the use of, CBL.

D.2 Rule Drafting Process

The proposed rule amendments were drafted by CDS staff, including contribution from CDS Legal, Risk Management, Operations, and Information Technology areas, and were reviewed by CDS' Legal Drafting Group ("**LDG**"). The LDG is an *ad hoc* advisory committee composed of legal and business representatives of participating CDS Participants.

D.3 Issues Considered

As noted above, in developing the CBL Service and the proposed Rule, CDS's primary consideration was the mitigation or elimination of risks related to the international, inter- time-zone settlement of transactions in securities, in a foreign currency. The proposed Rule, as drafted, hews to the principle that a CDS Participant that elects to apply to use, and uses, the CBL Service, should bear the risks and costs associated with such use.

D.4 Consultation

The CDS Risk Advisory Committee (RAC) was initially briefed on the proposed CBL Service, and the development of systems and Rules to facilitate implementation on October 30th, 2017. The proposed amendments were presented to the LDG on July 19th, 2018, and subsequently to the Risk Management and Audit Committee of the CDS Board of Directors and to the CDS Board of Directors on August 8th, 2018. Approval of the proposed amendments for filing, public comment and regulatory review was received by written resolution of the CDS Board of Directors on September 18th, 2018.

D.5 Alternatives Considered

As this is a new, ancillary, service offering from CDS, no alternatives were considered.

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*, by the British Columbia Securities Commission pursuant to Section 24(d) of the British Columbia *Securities Act* and by the *Autorité des marchés financiers* ("AMF") 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 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 amendments to CDS Participant Rules are expected to become effective on a date to be determined by CDS, such date to fall subsequent to approval of the amendments by the Recognizing Regulators following public notice and comment and be contingent on completion of appropriate testing and applicable notice to CDS participants.

E. Technological systems changes

The systems supporting the direct link to SHCH are not linked or attached to CDS' core clearing, settlement, and depository systems. The CBL Service will be available to CBL Participants via a web-based Graphical User Interface (GUI) as well as through a messaging interface via Participants' existing dedicated links to CDS.

Development of the following systems and processes in support implementation of the CBL Service is in-flight:

1. A dedicated private network link between CDS and SHCH systems to support the CBL service;
2. A GUI, which both CDS and CBL Participant users will use to perform CBL functions such as entering and confirming transactions;
3. New CBL messages and message protocols have been developed between SHCH and CDS to support CBL activities such as trade entry and notifications;
4. A CBL Account structure in which CBL Participants' transactions will be confirmed and settled.
5. A protocol and process for files and messages exchanged between CDS and SHCH to support custody services and reconciliation of securities positions between the SHCH Nominee Holding

Account and the CBL Accounts.

6. SWIFT messaging protocols have been developed with CDS's settlement banker to support daily funds settlement in RMB.
7. Development of an end-of-day corporate action information report for CBL Participants informing CBL Participants of the details of a corporate action on a security held at SHCH, and containing details of the impending corporate action, and details of the options available to the security owner.

Participants and their service bureaus may also elect to make modifications to their internal systems if they deem it necessary. Changes of this nature are the responsibility of each Participant in conjunction with their service bureau.

F. Comparison to other clearing agencies

Many clearing agencies have developed, and continue to develop, links with foreign depositories to facilitate the trading and settlement of cross-border transactions. CDS's strategy to develop additional links with depositories in foreign markets is consistent with the strategy of other depositories.

The proposed relationship between CDS and SHCH is unique to SHCH, as SHCH does not currently have foreign depositories as SHCH members acting as a financial intermediary or nominee holder for FIIs. While analogous, CBL can be distinguished from the China Bond Connect service inasmuch as the operators of the China Bond Connect and, in particular, the settling bank involved, is considered to be a domestic bank with a direct link to CIPS, whereas the CBL will be the first link of its kind to use the services of a foreign bank CIPS member.

CDS has longstanding experience with sponsoring arrangements such as the New York Link and DTC Direct Link with The Depository Trust and Clearing Corporation and with establishing foreign sub-custodian arrangements with entities such as Euroclear France, Skandinaviska Enskilda Banken AB (SEB) in Sweden, and has itself operated omnibus accounts for foreign CDS Participants such as Cavali (Peru) and JASDEC (Japan).

G. Public interest assessment

CDS believes that the proposed rule amendments are not contrary to the public interest, and that the proposed amendments, and the flexibility they bring, will benefit the Canadian capital marketplace.

H. Comments

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

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Attn: Brian Gelfand
100 Adelaide Street West – Suite 300
Toronto, Ontario, M5H 1S3
or via email at
Brian.Gelfand@tmx.com

with a copy to:

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

Notice and Request for Comment – Material Amendments to CDS Participant Rules related to
China Bond Link

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

I. PROPOSED CDS RULE AMENDMENTS

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

**APPENDIX “A”
PROPOSED CDS RULE AMENDMENTS**

Rule Amendments

1.1.1 Application

The Rules adopted by CDS by which each Participant has agreed to be bound pursuant to the Participant Agreement are:

- (a) Rule 1 – Documentation
- (n) Rule 14 – China Bond Link Service.

1.2.1 Definitions

For the purposes of the Legal Documents, unless otherwise specified:

...

“Account” means an account in a Ledger maintained by CDS for a Participant or for itself, and used for Transactions in the Depository Service and the Settlement Service, as described in Rule 6.1.2, and does not include a Link Account, a CDS NSCC Clearing Account or CDS DTC Account, an SHCH Nominee Holding Account, or a CBL Account. (compte) Each Account may include subaccounts...~~An Account may be~~

...

“CBL Account” has the meaning set out in Rule 14.2.2.

“CBL Charges” has the meaning set out in Rule 14.9.

“CBL Documents” has the meaning set out in Rule 14.1.5.

“CBL Participant” has the meaning set out in Rule 14.

“China Bond Link” or “CBL” means the Service made available pursuant to Rule 14.

“Designated CBL Banker” has the meaning set out in Rule 14.6.1.

“Foreign Institutional Investor” has the meaning set out in Rule 14.1.3.

“RMB” or “¥” means lawful Chinese yuan of the People’s Republic of China.

“Service” means the Depository Service, the Settlement Service, a Cross-Border Service, ATON, the Delivery Services or the China Bond Link. Any reference to a Service includes all Functions made available in respect of that Service.

“SHCH” means the Shanghai Clearing House.

“SHCH Nominee Holding Account” means an account maintained by SHCH for CDS as a member of SHCH as set out in Rule 14.5.1

“SWIFT” means The Society for Worldwide Interbank Financial Telecommunication.

2.4.11 China Bond Link

A full service Participant that has been admitted as a CBL Participant may use the China Bond Link in accordance with Rule 14.

2.7.1 Restrictions on System Functionality

CDS may restrict the right of a Participant to use system functionality in the following circumstances:

...

- (e) the Participant fails to comply with Rule 10.2.3 with respect to the Cross-Border Services or with Rule 14 with respect to the China Bond Link.

A restriction may apply to any Service or any Function, to a particular Security or class of Securities, to a particular Transaction or class of Transactions, or to Securities or Transactions generally. A restriction may be limited to a particular location or office of the Participant or a particular Office of CDS. CDS may remove the restriction when CDS in its sole discretion determines that the Participant is able to resume normal operations.

5.1.1. General Description

CDS employs a variety of mechanisms to manage the risk of a default by a Participant in the Services. Such mechanisms include:

- (a) monitoring the status and activities of Participants;
- (b) the exercise of CDS's rights of retention and set off;
- (c) the taking of a security interest in collateral charged by Participants, including Specific Collateral, CCP Collateral, Cross-Border Specific Collateral, Settlement Service Collateral, Fund Contributions, Link Fund Contributions and Collateral Pool Contributions;
- (d) the use of Lines of Credit, Fund Credit Rings, Category Credit Rings and Link Fund Credit Rings to ensure payment of a suspended Participant's obligations;
- (e) the use of System-Operating Caps to establish limits on the Transactions that may be effected by a Participant;
- (f) the application of edits to each Transaction before it is Settled, including the Aggregate Collateral Value Edit to monitor the amount of collateral available to support the Participant's obligations; and
- (g) the collection and payment of Marks in respect of Central Counterparty Obligations.

5.1.3. Monitoring of Participants

...

- (b) requiring the Participant to grant to CDS a security interest in Specific Collateral, CCP Collateral, or Cross-Border Specific Collateral pursuant to Rules 5.2.3, 5.14.3, ~~10.5.3,~~ or 14.14;

...

5.2.1 Description of Security Interests

As more particularly described in this Rule 5, ~~and in Rule 10,~~ and Rule 14, each Participant grants a first priority security interest to CDS in a variety of collateral:

...

NET NEW RULES

[NOTE: For convenience and legibility, the proposed Rule has not been underlined]

Rule 14. CHINA BOND LINK

14.1. Overview of China Bond Link

14.1.1. China Bond Link

CDS offers CBL to enable access to the settlement services provided by SHCH, of transactions, howsoever made, in certain Chinese securities, in RMB, subject to such securities being eligible for processing by CBL (referred to as “**Bonds Under Custody**”, the processing of which is, for purposes of this Rule 14, is referred to as a “CBL Transaction”). Notwithstanding anything in this Rule 14, and subject to Rule 3.3.10, CDS will provide CBL as described in this Rule 14 only for so long as: (i) CDS continues to be a member of SHCH, and (ii), its membership permits CDS to provide CBL. For further clarity, CDS may decide to cease the operation of CBL without prior notice to its CDS Participants, including if, in its opinion it becomes impractical or unduly onerous to continue to offer the Service.

14.1.2. Application of Rules to China Bond Link

CBL is one of the Services offered by CDS and governed by the Legal Documents. CBL Participants, and the use of CBL, are governed by Rule 1 through Rule 5 and by Rule 9, *mutatis mutandis*, except for Rules 4.2.4 and 4.3, which apply only to CDSX. For further clarity, CBL is separate from and does not form part of CDSX. Accordingly, the use of CBL is not governed by Rule 6 - Depository Service, Rule 7 - Settlement Service, or Rule 8 - Payment Exchange for CDSX.

14.1.3. China Bond Link Participants

A full service Participant that:

- a) has been designated by the People’s Bank of China as a Foreign Institutional Investor (“FII”) and satisfies all of the People’s Bank of China’s requirements for such designation; and,
- b) maintains an account denominated in RMB, or appoints a CBL Designated Banker for such maintenance, for purposes of CBL Transactions,

may apply to CDS in accordance with Rule 2.2.2 to be a CBL Participant and to use CBL.

14.1.4. CDS Membership at SHCH

- (a) *CDS as SHCH Member* - In order to offer CBL and the related facilities governed by this Rule 14, CDS has become a member of SHCH, and has entered into various agreements with SHCH for that purpose. As an SHCH member, CDS is subject to the rules, by-laws, procedures, and other requirements of SHCH from time to time in force (the “CBL Documents”).
- (b) *Compliance* - Each CBL Participant using CBL shall comply with the terms of this Rule 14, with the CDS Procedures, and with the SHCH Detailed Operation Rules applicable to the

CBL Participant to the same extent as if the CBL Participant were a direct member of SHCH, notwithstanding that CDS is the member of SHCH and that the CBL Participant's use of CBL does not confer on or grant to the CBL Participant any rights, benefits or privileges directly against, or obligations or liabilities to, SHCH.

- (c) *Choice of Law* - The securities and Entitlements (as such Entitlements are defined in Rule 6.6.1) credited to the SHCH Nominee Holding Account are Securities as defined in the Rules and are Entitlements within the meaning of the laws of the People's Republic of China, and such securities are located in the People's Republic of China and are subject to Chinese law. The laws of the People's Republic of China shall govern: (i) the operation of the SHCH Nominee Holding Account or accounts; (ii) the role of CDS as a nominee holder of Bonds Under Custody; and (iii) the proprietary consequences of acquisitions, dispositions, holding and transfer of interests in such securities and security entitlements. For further clarity, a CBL Account maintained by CDS for each CBL Participant, the CBL Participant's use of CBL, and CDS's obligations with respect to CBL Accounts, remain subject to Canadian law.
- (d) *Submission to Jurisdiction* - The CBL Documents are governed by the laws of the People's Republic of China, without giving effect to principles of conflicts of law, and provide: (i) that suits, actions or proceedings arising out of such agreements shall be brought in the People's Republic of China and, (ii) that the parties thereto submit to the jurisdiction of the courts of the People's Republic of China. If CDS is a party to any action arising out of a CBL Participant's use of CBL, then upon notice by CDS, that Participant shall submit to the jurisdiction of any court in which such proceeding is brought, including a court in the People's Republic of China, and shall become a party to such proceeding.
- (e) *Consent to CBL Transaction and Position Reporting* – Each CBL Participant acknowledges that, in using CBL, a CBL Participant explicitly consents, pursuant to Rule 3.6.2, to the provision to SHCH and/or the People's Bank of China of such CBL Transaction or Position information as each of the foregoing may reasonably require in connection with the CBL Participant's use of CBL.
- (f) Each CBL Participant shall enter into any such further agreements or instruments, make such declarations, and provide such information, relating to its use of CBL, as may be reasonably required by CDS.

14.2. Accounts

14.2.1. SHCH Nominee Holding Accounts Used by CDS

SHCH maintains one or more omnibus accounts for CDS (each an "**SHCH Nominee Holding Account**") for purposes of the CBL Service. The SHCH Nominee Holding Accounts are maintained by SHCH for CDS and not for the CBL Participants, and are not made available for the use of CBL Participants. Bonds Under Custody credited to the SHCH Nominee Holding Accounts are held by SHCH on behalf of CDS; CDS credits, by book entry, such Bonds Under Custody to the CBL Account maintained by CDS for the CBL Participants for whom the Bonds Under Custody are held by SHCH. For further clarity, SHCH Nominee Holding Accounts do not form part of the Depository Service, and are not "Accounts" as that term is defined in Rule 1.2.1 or as such

definition is used in the CDS Participant Rules generally.

14.2.2. CBL Account

- (a) CDS shall maintain, for each CBL Participant, records reflecting each CBL Participant's proportional interest in the financial assets held in the SHCH Nominee Account on CDS's behalf. (each record a "**CBL Account**").
- (b) Upon the crediting, by SHCH, of Bonds Under Custody to the SHCH Nominee Holding Account, CDS shall promptly reflect such delivery in the CBL Account maintained by CDS for the Participant for whom the Bond under Custody is held by CDS.
- (c) A credit to the CBL Account shall reflect a CBL Participant's interest in such Bonds Under Custody, provided that: i) such interest can be no greater than the interest CDS has in such Bonds Under Custody, as a member of SHCH; and, ii) the CBL Participant's interest in such Bonds Under Custody is subject to all of the rights and obligations of CDS pursuant to the CBL Documents, including any right to reverse a conditional delivery which may be imposed thereon.

14.3. Settlements

- (a) Settlement of a CBL Transaction is effected by SHCH, and SHCH is, and shall remain responsible for such settlement and for making corresponding debits or credits to the SHCH Nominee Holding Account in accordance with the CBL Documents.
- (b) CBL Transactions are settled by SHCH on a delivery versus payment basis provided that such settlement shall, where applicable, be contingent on the pre-payment, in RMB, of the entire settlement amount for such CBL Transaction by the CBL Participant, in accordance with Rules 14.4 and 14.5.

14.4. Funds AccountsCDS CBL Banker

- (a) For purposes of delivering to, and receiving payments from, SHCH in respect of CBL Transactions in Bonds Under Custody, CDS shall establish an omnibus funds account, denominated in RMB and in CDS's own name ("**CDS RMB Account**"), pursuant to a separate banking agreement with a Financial Institution designated for such purpose as the "CDS CBL Banker".
- (b) Each CBL Participant acknowledges and agrees that:
 - (i) the CDS RMB Account is not intended to be used as a payment account for the execution of payment transactions which are not related to CBL Transactions; and,
 - (ii) The CDS CBL Banker may hold a security interest or lien over, or right of set-off in relation to the funds held in the CDS RMB Account in satisfaction of CDS's liabilities and obligations to the CDS CBL Banker; and,

- (iii) No CDS CBL Banker shall be, or shall be deemed to be, an agent of CDS, and CDS assumes no credit risk, including insolvency or bankruptcy risk, with respect to any such entity; and,
- (iv) CDS shall not be liable for any act or omission by, or the insolvency of, any CDS CBL Banker. CDS will make reasonable efforts, in its discretion, to seek recovery from the CDS CBL Banker, but CDS will not be obligated to institute legal proceedings, file a proof of claim in any insolvency proceeding, or take any similar action.

14.4.2. Appointment of Designated Banker by Participant

- (a) For purposes of effecting or receiving payment in RMB in connection with CBL Transactions in Bonds Under Custody, each CBL Participant (other than a CBL Participant who acts as a Designated CBL Banker or acts in that capacity on its own behalf) shall appoint, in a form acceptable to CDS, a Designated CBL Banker (who need not be a CBL Participant) to act as its Designated CBL Banker for all settlement amounts, in RMB, owing in respect of CBL Transactions.
- (b) The obligation of each CBL Participant to make payment to CDS, or its right to receive payment from CDS of such amounts, is discharged by payment between CDS and the CBL Participant or the CBL Participant's Designated CBL Banker.
- (c) Notwithstanding the designation of the Designated CBL Banker, the CBL Participant shall remain solely responsible for the payment and performance of its obligations to CDS in respect of CBL Transactions and for the acts, omissions, or inability of the Designated Banker in the performance of these obligations. CDS shall have no recourse to the Designated CBL Banker.

14.4.3. Accounting

Responsibility for resolving any dispute arising from payments made in respect of CBL Transactions shall rest solely upon the CBL Participant and the Designated CBL Banker involved, and shall not affect their obligations to make payment to CDS in accordance with this Rule. **Payments**

14.5.1. CBL Acceptable Payment

- a) All payments to CDS from a CBL Participant and all payments from CDS to a CBL Participant in respect of CBL Transactions shall be made by means of a SWIFT message (a “ CBL Acceptable Payment”) between the CBL Participant, or its Designated CBL Banker, and the CDS CBL Banker
- b) In the event that SWIFT is not available, payment shall be made by the means communicated to CBL Participants by CDS.

14.5.2. Additional Payment Requirements

The Procedures and User Guides may specify additional requirements with respect to CBL Acceptable Payments not inconsistent with this Rule.

14.6. CBL Settlement Amount Payment

14.6.1. Payment between CDS and SHCH

On each SHCH Business Day, SHCH calculates the settlement amounts payable by CDS to SHCH, or by SHCH to CDS, arising in respect of all CBL Transactions in Bonds Under Custody held in the SHCH Nominee Account maintained by SHCH. Such amounts are paid to or from the CDS RMB Account maintained by the CDS CBL Banker for CDS.

14.6.2. Settlement Summary

On each Business Day, CDS shall provide to each CBL Participant a settlement summary report in respect of that CBL Participant's CBL Transactions, including debits and credits arising from the settlement of CBL Transactions and Entitlements paid by SHCH in respect of Bonds Under Custody held in the SHCH Nominee Holding Accounts. In accordance with the Procedures and User Guides, each CBL Participant having a net amount payable shall make payment to CDS of such amount, and CDS shall make payment to each CBL Participant having a net amount receivable.

14.6.3. Payment between CBL Participant and CDS in RMB

At the time or times specified in the Procedures (the "CBL Cut-Off"), the CBL Participant shall pay, or shall instruct its Designated CBL Banker to pay to CDS settlement amount owing in respect of each the CBL Participant's or Participants' use of CBL. The obligation of each CBL Participant to make payment to CDS, or its right to receive payment from CDS of such amounts, is discharged by payment between CDS and CBL Participant.

14.6.4. CBL Participant Available for Settlement

For each day on which CBL is available, each CBL Participant shall ensure that it has facilities available to meet any obligation it may have arising from the use of CBL, whether or not that day is a Business Day for any CDS Office and whether or not that day is otherwise an operating day for the CBL Participant.

14.7. Communications

- a) CBL Participants using CBL do not communicate with, or give instructions to, SHCH directly. Each CBL Participant is required to confirm the accuracy of all information communicated on its behalf by CDS to SHCH or vice versa. CDS has no responsibility for any direct communications, by whatever means, between the CBL Participant and SHCH. CDS may receive from SHCH any information which CDS may request concerning a CBL Participant's use of CBL.
- b) CDS shall distribute to CBL Participants reports and information produced by SHCH and provided to CDS in respect of Bonds Under Custody.

14.8. Conflict

Each Participant acknowledges that CDS, as a member of SHCH, must observe and comply with the CBL Documents and applicable Chinese law. In the event that CDS's obligations under the CBL Documents conflict with CDS's obligations under the Rules, each Participant acknowledges that CDS must comply with its obligations under the CBL Documents, and that such compliance shall not be considered to be a breach by CDS of its obligations under the Rules to the extent

required to ensure such compliance.

14.9. CBL Charges

In accordance with the Procedures, each CBL Participant shall pay all CBL Charges incurred by CDS in connection with the CBL Transactions made for the benefit of such CBL Participant. Payment of any CBL Charges shall be without prejudice to the rights of the CBL Participant after the payment to an accounting of the amounts properly owing. "**CBL Charges**" means all CBL fees, and all fines, taxes and other charges that are made, levied, assessed or imposed on CDS in respect of a CBL Participant's use of CBL, including:

- (a) charges imposed by CDS, SHCH, or any service provider, arising from CBL Transactions made by the Participant through the CBL, including any penalties assessed by SHCH under the CBL Documents; and,
- (b) stamp duty, taxes (except taxes measured by income to which CDS or SHCH is beneficially entitled), other governmental charges, and obligations to deduct or withhold taxes on entitlements and other amounts, arising from the delivery of Bonds Under Custody to or from the Participant as a result of a CBL settlement, with all interest and penalties thereon and additions thereto (other than interest, penalties or additions imposed because of the default of CDS).

CDS may monitor the CBL Charges that are or may become payable by CDS resulting from a CBL Participant's use of CBL, and CDS may, at CDS' discretion, require the CBL Participant to make a prepayment to CDS in respect of such CBL Charges.

14.10. CBL Claims

Upon notification by CDS, each CBL Participant shall be liable to pay any amount or deliver any Bond Under Custody, pro rata, as may be required by SHCH from CDS in connection with CDS's use of the SHCH (each of which a "CBL Claim"). A "CBL Claim" includes, but is not limited to: (i) any amount that CDS may be required to pay in connection with the failure by another SHCH participant to pay or perform any of its obligations to SHCH, (ii) any requirement to make a deposit or a contribution to a fund, or to provide any other type of securities, collateral, or margin that could be realized upon, applied or used by SHCH in connection with the failure by another SHCH participant to pay or perform any of its obligation to SHCH, or (iii) any requirement to pay any amount to SHCH as a loss allocation mechanism in connection with an operational failure, default or recovery scenario.

CDS may take such actions as are required to satisfy the CBL Claim, and each Participant shall indemnify CDS pursuant to Rule 14.11.

14.11. Indemnity

Without limiting the generality of the Rule 4.1, each CBL Participant shall indemnify and hold harmless CDS from and against any loss, damage, cost, expense, assessment, penalty, charge, liability, or claim (including the reasonable cost of legal counsel to advise on or defend against such claims) suffered or incurred by, or made against, CDS as a result of the CBL Participant's use of CBL. If any claim is made against CDS by SHCH or any other Person in connection with the activities of a CBL Participant, then upon notice by CDS the Participant shall make arrangements acceptable to CDS either (i) to pay the claim, or (ii) to contest the claim, provided the CBL Participant provides CDS with an indemnity in respect of such proceedings, in a form and an amount acceptable to CDS. If the CBL Participant contests the claim, CDS may permit the CBL

Participant to take proceedings in the name of CDS to contest such claim, in a manner acceptable to CDS, at the sole risk and expense of the CBL Participant.

14.12. Right of Retention and Right of Set Off

For greater certainty and without limiting the application thereof, reference in Rule 5.1.4 to money standing to the credit of any Participant with CDS, or payable by CDS to any Participant, includes amounts payable to such Participant with respect to CBL, and obligations arising under the Rules that are due and payable by the any Participant to CDS include amounts payable by such Participant with respect to the CBL.

14.13. Security Interests

14.13.1. CDS's Security Interests

To secure the performance of all obligations of the CBL Participant to CDS, and payment of all amounts due to CDS, under this Rule 14 from time to time, each full service CBL Participant grants to CDS a first ranking security interest in, and pledges, charges and assigns to CDS:

- (a) all Bonds Under Custody held by CDS in the SHCH Nominee Holding Account on behalf of the CBL Participant and credited to the CBL Account of the CBL Participant, and all funds owing in respect of such Bonds Under Custody or in respect of any CBL Transaction; and
- (b) all dividends, interest, amounts due on maturity, principal repayments and all other entitlements and proceeds arising with respect to such Bonds Under Custody.

The security interests created by this Rule 14.13.1 shall survive the suspension, termination, or withdrawal of the CBL Participant. In addition to the security interests created in this Rule 14.13.1, and to the extent that any security granted in this Rule 14.13.1 may be governed by the laws of the Province of Québec, each Participant grants a hypothec in favour of CDS on the terms set out in Rule 5.2.

14.13.2. Warranty re Security Interests

Each CBL Participant represents and warrants to CDS that it has full authority and power to grant the security interests and hypothec described in this Rule to CDS, including any exemption or authorization that may be required pursuant to any statute or regulation binding on the CBL Participant.

14.13.3. Application

Rule 9 sets out the grounds for suspension of a Participant in any Service and the consequences of such suspension. This Rule 14.13 describes the consequences of suspension where the Participant is a Participant in CBL, and the steps described in this Rule 14.13 shall be taken in addition to and in conjunction with the steps set out in Rule 9.

14.13.4. Net Proceeds

A suspended CBL Participant shall indemnify CDS in respect of the costs and expenses incurred by CDS in disposing of or realizing upon CBL Collateral. References in this Rule 14.13 to the net proceeds of realization mean the proceeds of realization after setting off any such costs and expenses.

14.13.5. Final Payment

As soon as possible after the suspension of a CBL Participant, CDS shall calculate the total value of the obligations owing by the suspended CBL Participant to CDS arising from CBL, if any.

14.13.6. Realization Generally

Without notice to a suspended CBL Participant, and without any delay, CDS may, at its sole discretion, sell, assign, transfer, pledge, encumber, dispose of or otherwise realize upon, the suspended CBL Participant's CBL Collateral. CDS may in its absolute discretion realize upon such collateral for such price, upon such terms and by such means as CDS considers appropriate having regard to the best interests of CDS and the Participants.

14.13.7. Application of Collateral

CDS shall apply the net proceeds of realization of the CBL Collateral to pay any amounts owing by the defaulting CBL Participant in respect of CBL. Any excess remaining after such application shall be applied by CDS pursuant to its rights under 9.3.13.