

### 13.3 Clearing Agencies

#### 13.3.1 CDS – Notice of Effective Date – Technical Amendments to CDS Procedures – Dividend with Option Enhancements, Proration Indicator, and Automated Withdrawals for Paying Agents

##### NOTICE OF EFFECTIVE DATE – TECHNICAL AMENDMENTS TO CDS PROCEDURES

##### DIVIDEND WITH OPTION ENHANCEMENTS, PRORATION INDICATOR, AND AUTOMATED WITHDRAWALS FOR PAYING AGENTS

#### A. DESCRIPTION OF THE PROPOSED CDS PROCEDURE AMENDMENTS

The proposed procedure amendments are available for review and download on the User Documentation Revisions page on the CDS website at <http://www.cds.ca/cdsclearinghome.nsf/Pages/-EN-UserDocumentation?Open>.

#### **Background**

On November 1, 2011, CDS implemented a participant rule that requires all dividend and interest payments to be paid in final, irrevocable funds in electronic form to CDS. Over the course of the last year and a half, CDS has been working with a limited participant transfer agent to design effective processes that would enable transfer agents or their designated banker to efficiently assume the role of paying agent in CDSX as a means of making those entitlement payments in electronic form. A number of these process efficiencies have already been implemented, including:

#### *June 2010*

- A Projected Payment Matching process (PPM) to assist in the elimination of cheques for the payment of entitlements, and to allow the payment process to be more automated. The first phase of this project included Dividend and Interest events.

#### *July 2011*

- A new suite of messages for paying agents to trigger release of their entitlement payments in CDSX
- A new Electronic Alert Service (EAS) alert for depository agents to report the final tendered quantities on voluntary events
- A new TRAX transaction subtype - Market Purchase (MP) – for automated withdrawals on security payment items
- A new process to automatically close optional events with no tenders.

#### *September 2011 (Internal to CDS items only)*

- CDS entitlement volume statistical reports
- An enhancement to CDS's entitlement system to allow CNS Settlement/Allotment restrictions to be removed from an event, if required.

In the final phase of this project, CDS is now making the following changes in order to automate a number of the manual activities surrounding voluntary, mandatory with option and dividend with option type event processing:

- Expansion of the PPM process to include Dividend with Option (DWO) and Interest with Option (INO) events
- A new CDSX agent type (PS – security paying agent) to allow events with both cash and security payment items to be attributed to different agents
- An automated process to update the payment rate and payable date information provided by transfer agents on DWO and INO events
- New EAS alerts for (i) Unreleased and Pending security payments, and (ii) DRIP price not received
- A new TRAX transaction subtype (CA – corporate action) for automated CDSX deposits on stock receive items
- Automation of proration processing on all voluntary and mandatory with option type events

- A new TRAX transaction subtype (EP – entitlement payment) for automated CDSX withdrawals of securities submitted to voluntary and mandatory with option type events.

**Description of the proposed changes**

- **Expansion of the PPM process to include DWO and INO events**

The PPM process introduced in 2010 has automated the verification of expected payments on Dividend and Interest events, as well as providing earlier reconciliation of discrepancies between CDS's calculations and those of the transfer agent(s). This process will now be expanded to include DWO and INO event types. This will further minimize the related manual payment activities that CDS's Operations area is required to perform.

- **A new CDSX agent type (PS – security paying agent) to allow events with both cash and security payment items to be attributed to different agents**

In order to enable the paying agent for a cash item to differ from the paying agent for a security item on the same event, a new agent type will be introduced to CDSX and CDS's entitlement system. The new PS agent type will have all the same functionality as the existing paying agent type (PY). The new agent type will provide limited transfer agents with the ability to act as a security paying agent in CDSX while still maintaining a designated CDSX banker for the cash payments. This will also provide internal efficiencies in CDS's Operations area by having the transfer agent perform the security paying agent role and removing CDS from the event processing cycle.

- **An automated process to update the payment rate and payable date information provided by transfer agents on DWO and INO events**

This enhancement to the PPM process will (i) enable agents to provide the Dividend Reinvestment Plan (DRIP) price details on DWO or INO events in file form, and (ii) automatically update and disburse the relevant event in CDS's entitlement system to move the payment calculations and obligations into CDSX. This process will eliminate the manual input currently performed by CDS's Operations area.

- **New EAS alerts for (i) Unreleased and Pending security payments, and (ii) DRIP price not received**

A new EAS alert will notify a paying agent that there is an unreleased or pending payment of a security item on an entitlement or corporate action event. The alert will be sent on a daily basis until the status of the event changes to paid, or the event is deleted.

The second new EAS alert will notify a transfer agent that there is a DRIP price that has not been received for a DWO event. The DRIP price is required in order to calculate the security payment obligation in CDSX. The alert will be sent on a daily basis until the price is received.

- **A new TRAX transaction subtype (CA – corporate action) for automated CDSX deposits on stock receive items**

To assist transfer agents, acting as limited purpose participants, with processing the payments related to DWO, mandatory with option and voluntary event types, CDS will automate the creation of the deposit for the payment item in CDSX, and link the deposit to the payment obligation in CDSX.

A TRAX corporate action transaction (subtype CA) will be automatically generated for the total of the security payment when the payment calculations are sent from CDS's entitlement system, and this transaction will create the unconfirmed deposit transaction in CDSX. The confirmation of the deposit by the issuer's transfer agent will update the paying agent's ledger and trigger the automated release of the associated security payment in CDSX.

- **Automation of proration processing on all voluntary and mandatory with option type events**

In some events, the total quantity of securities tendered must be prorated for payment purposes as a result of the offeror's limitation, under the terms and conditions of the offer, to take up and pay for the entire amount elected.

The CDS entitlement system lacks the functionality in some event types to systemically prorate the quantity of tendered shares, calculate the eligible payment and return the remaining securities to the original holders. As a result, when an event requires prorating of the payment, CDS's Operations area must manually perform the proration tasks through ledger adjustments. The proration function within CDS's entitlement system will be expanded to include all voluntary and mandatory with option event types, removing the manual intervention currently required.

Additionally, an information field will be added to a number of CDSX entitlement screens, to the 7040/7041 daily entitlement files, and to the MT564 Corporate Action Notification message to identify events that may be subject to proration, as a result of the conditions of the offer.

- **A new TRAX transaction subtype (EP – entitlement payment) for automated CDSX withdrawals of securities submitted to voluntary and mandatory with option type events**

An unconfirmed withdrawal transaction will be automatically generated through the TRAX service for the securities tendered in a voluntary or mandatory with option type event, upon the agent's successful completion of the release of the payment item. The TRAX entitlement payment withdrawal transaction (subtype EP) will be between the paying agent and the transfer agent of the submitted securities. The confirmation of this deposit in CDSX by the issuer's transfer agent will complete the lifecycle of the security, moving the position from the paying agent's account back to the transfer agent for removal from CDSX.

***Description of the proposed amendments***

The proposed amendments include:

- Updates to the PPM descriptions to (i) add the DWO and INO event types, and (ii) describe the process for transfer agents to provide payment rate and payable date information
- Updates to the EAS descriptions to add the new alerts for Unreleased and Pending security payments, and DRIP price not received
- Updates to the TRAX Transfer Requests description to include new subtypes CA (corporate action) and EP (entitlement payment)
- Updates to the entitlement process descriptions to include the automated creation of a deposit for payment items in CDSX, and the trigger of the associated security payment when the deposit is confirmed
- Updates to multiple manuals to revise the CDSX Entitlement function screen captures to illustrate the new "Proration" field.

CDS procedure amendments are reviewed and approved by CDS's strategic development review committee (SDRC). The SDRC determines or reviews, 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.

These amendments were reviewed and approved by the SDRC on December 16, 2011.

**B. REASONS FOR TECHNICAL CLASSIFICATION**

The amendments proposed pursuant to this Notice are considered technical amendments as they are consequential amendments intended to implement a material rule that has been published for comment pursuant to this protocol which only contain material aspects already contained in the material rule or disclosed in the notice accompanying the material rule.

**C. EFFECTIVE DATE OF THE CDS PROCEDURE AMENDMENTS**

Pursuant to Appendix A ("Rule Protocol Regarding The Review And Approval Of CDS Rules By The OSC") of the Recognition and Designation Order, as amended on November 1, 2006, and Annexe A ("Protocole d'examen et d'approbation des Règles de Services de Dépôt et de Compensation CDS Inc. par l'Autorité des marchés financiers") of AMF Decision 2006-PDG-0180, made effective on November 1, 2006, CDS has determined that the proposed amendments will become effective on March 5, 2012.

**D. QUESTIONS**

Questions regarding this notice may be directed to:

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