

CDS Clearing and Depository Services Inc. (CDS®)

MATERIAL AMENDMENTS TO CDS PARTICIPANT RULES RELATED TO THE REMOVAL OF THE CCP CAP FOR CDS PARTICIPANTS WHO USE CNS

NOTICE AND REQUEST FOR COMMENTS

A. DESCRIPTION OF THE PROPOSED CDS RULE AMENDMENT

This Rule Amendment will eliminate the central counterparty (“**CCP**”) Cap requirement for CDS Participants who use the Continuous Net Settlement service (“**CNS**”).

Under this Rule Amendment, Rule 5.14 which details CCP Cap requirements and different thresholds will be removed in its entirety along with related definitions interspersed throughout the CDS Participant Rules as further described in Appendix A to this Notice.

B. NATURE AND PURPOSE OF THE PROPOSED CDS RULE AMENDMENT

The proposed amendment will eliminate the “soft cap” which has been in place in the CDS Participant Rules since 2005. The “soft cap” allowed Participants to continue to trade even after various thresholds were breached as long as the Participant in question deposited additional collateral in their CDS collateral account as prescribed under Rule 5.14. The Cap allowed Participants to continue their CDS Functions while also providing Participants with an incentive to reduce outstanding positions. Under existing Rules, once the threshold has been exceeded, a Participant will no longer be able to utilize any of the Functions and will default all subsequent trades if the Participant’s CCP collateral requirement caused by a CCP Cap breach is not met.

With the introduction of the Cover-1 CNS Default Fund in October, 2017, this credit protection mechanism established in 2005 was rendered obsolete. CDS will continue to use the CCP Cap internally as an alert tool only.

C. IMPACT OF THE PROPOSED CDS RULE AMENDMENT

- (a) CDS Clearing – This Rule Amendment will align CDS’ cash-securities CCP function with the risk management practices of other cash-securities CCPs.
- (b) CDS Participants – This Rule Amendment will benefit Participants by providing them with relief from unnecessary collateral requirements.
- (c) & (d) Other Market Participants and Securities and Financial Markets in General – This Rule Amendment benefits financial markets generally by promoting the efficient use of collateral in the marketplace without compromising the reliable, efficient and safe provision of clearing and settlement services in Canada.

C.1 Competition

This Rule Amendment will apply to all CDS Participants who currently are, or may choose to become Participants in CNS. As it concerns fair access, no CDS Participant will be disadvantaged or otherwise prejudiced by the introduction of these changes.

C.2 Risks and Compliance Costs

The Rule Amendment will result in enhancements to CDS's Risk Model.

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

This Rule Amendment is not directly connected with PFMI or international standards. CDS notes, however, the introduction of PFMI standards rendered this credit protection mechanism unnecessary.

D. DESCRIPTION OF THE RULE DRAFTING PROCESS

D.1 Development Context

CDS prepared documents describing the proposed Rule Amendment which were tabled at the Risk Advisory Committee, a CDS Participant committee that meets regularly throughout the year.

D.2 Rule Amendment Drafting Process

The Rule Amendment was drafted by CDS's Legal group in consultation with Risk Management, and was subsequently submitted for consultation to the Legal Drafting Group ("LDG") on July 19, 2018. The LDG comments on the drafting of proposed amendments to the CDS Participant Rules and can suggest further revisions. The LDG's membership includes representatives from a cross-section of the CDS Participant community and meets on an ad hoc basis.

D.3 Issues Considered

As noted above, in drafting this Rule Amendment, CDS's primary consideration was to update its risk management practices with respect to credit protection practices related to CNS. Removal of the Cap reflects actual needs and reduces collateralization burden on its Participants.

D.4 Consultation

CDS received input from the following Participant committee:

- Legal Drafting Group reviewed the Rule Amendment (07/18/2018)
- Risk Advisory Committee reviewed the Rule Amendment with no contrary views expressed (04/24/2018)

CDS regulators attend Participant committee meetings as observers.

The Rule Amendment was presented to the Risk Management and Audit Committee and approved by the Board of Directors on August 8, 2018.

D.5 Alternatives Considered

No alternatives were considered. This Rule Amendment is in response to a credit risk protection mechanism established in 2005, now rendered obsolete with the introduction of various changes to risk management practices as noted above.

D.6 Implementation Plan

CDS is recognized as a clearing agency by the Ontario Securities Commission pursuant to section 21.2 of the *Securities Act (Ontario)*, by the British Columbia Securities Commission pursuant to Section 24(d) of the *Securities Act (British Columbia)* and by the Autorité des marchés financiers pursuant to section 169 of the *Securities Act (Québec)*. In addition CDS is deemed to be the clearing house for CDSX®, a clearing and settlement system designated by the Bank of Canada pursuant to section 4 of the *Payment Clearing and Settlement Act*. The Ontario Securities Commission, the British Columbia Securities Commission, the Autorité des marchés financiers and the Bank of Canada will hereafter be collectively referred to as the “**Recognizing Regulators**”.

This Rule Amendment is expected to become effective upon approval by the Recognizing Regulators following the prescribed public notice and comment period.

E. TECHNOLOGICAL SYSTEM CHANGES

The proposed Rule Amendment is not expected to have an impact on technological systems, or require changes to such systems for CDS, CDS Participants, or other market participants.

F. COMPARISON TO OTHER CLEARING AGENCIES

CDS is not aware of other Cover-1 cash-securities CCPs that impose CCP Cap requirements on its Participants.

G. PUBLIC INTEREST ASSESSMENT

CDS has determined that the proposed Rule Amendment is not contrary to the public interest.

H. COMMENTS

Comments on the proposed Rule Amendment and Fee Proposal should be in writing and submitted within 30 calendar days following the date of publication of this Request for Comments in the Ontario Securities Commission Bulletin to:

Legal Department
Attn: Hugo Maureira, Legal Counsel, Clearing
CDS Clearing and Depository Services Inc.
100 Adelaide Street West, Suite 300
Toronto, Ontario M5H 1S3

Fax: 416-365-1984
e-mail: hugo.maureira@tmx.com

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:

M^e Anne-Marie Beaudoin
Secrétaire générale
Autorité des marchés financiers
800, square Victoria, 22^e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3
Télécopieur: (514) 864-6381

Manager, Market Regulation
Market Regulation Branch
Ontario Securities Commission
Suite 1903, Box 55,
20 Queen Street West
Toronto, Ontario, M5H 3S8
Fax: 416-595-8940
e-mail: marketregulation@osc.gov.on.ca

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Doug MacKay
Manager, Market and SRO Oversight
British Columbia Securities Commission
701 West Georgia Street
P.O. Box 10142, Pacific Centre
Vancouver, B.C. V7Y 1L2
Fax: 604-899-6506
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Bruce Sinclair
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Vancouver, B.C., V7Y 1L2
Fax: 604-899-6506
Email: bsinclair@bcsc.bc.ca

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

I. PROPOSED CDS RULE AMENDMENT

Appendix “A” contains text of current CDS Participant Rules marked to reflect the proposed Rule Amendment as well as text of these rules reflecting the adoption of the proposed Rule Amendment.

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

Text of CDS Participant Rules marked to reflect proposed amendment	Text of CDS Participant Rules reflecting the adoption of proposed amendment
<p>[marked text of rules – deletions are <u>strikethrough text and in red font</u>]</p>	
<p>1.2.1 Definitions</p> <p>“CA Liability Record” has the meaning ascribed to that term in Rule 6.8.5.</p> <p>“CALMS” means the Corporate Action Liability Management Service described in Rule 6.8.5.</p> <p>“CBA” means The Canadian Bankers Association.</p> <p>“CCP Cap” means the threshold amount with respect to the CCP Functions that if exceeded requires the pledging of CCP Collateral, which threshold amount is established in accordance with Rule 5.14.</p> <p>“CCP Collateral” means CCP Collateral as the term is defined in Rule 5.2.4.</p> <p>“CCP Contributions Total” means an amount determined in accordance with the Procedures as described in Rule 5.14 taking into account the Contributions required to be made by the Participant to the Funds for all of the CCP Functions used by it.</p> <p>“CCP Function” means the CNS Function for processing Trades by novation and netting prior to Settlement.</p> <p>“CCP Withdrawal Option” means the CCP Withdrawal Option described in Rule 9.4.</p> <p>“CDCC” means the Canadian Derivatives Clearing Corporation.</p> <p>2.7.1 Restrictions on System Functionality</p> <p>CDS may restrict the right of a Participant to use system functionality in the following circumstances:</p> <p>(a) CDS determines that the Participant is unable to properly use system functionality due to operational or technical problems with the Participant's own systems or the</p>	<p>1.2.1 Definitions</p> <p>“CA Liability Record” has the meaning ascribed to that term in Rule 6.8.5.</p> <p>“CALMS” means the Corporate Action Liability Management Service described in Rule 6.8.5.</p> <p>“CBA” means The Canadian Bankers Association.</p> <p>“CCP Function” means the CNS Function for processing Trades by novation and netting prior to Settlement.</p> <p>“CCP Withdrawal Option” means the CCP Withdrawal Option described in Rule 9.4.</p> <p>“CDCC” means the Canadian Derivatives Clearing Corporation.</p> <p>2.7.1 Restrictions on System Functionality</p> <p>CDS may restrict the right of a Participant to use system functionality in the following circumstances:</p> <p>(d) CDS determines that the Participant is unable to properly use system functionality due to operational or technical problems with the Participant's own systems or the systems of third parties, or due to events over which the Participant has no control;</p> <p>(e) the Participant requests CDS to do so; or</p> <p>....</p> <p>5.1.1 General Description</p> <p>CDS employs a variety of mechanisms to manage the risk of a default by a Participant in the Services. Such mechanisms include:</p>

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<p>systems of third parties, or due to events over which the Participant has no control;</p> <p>(b) in accordance with Rule 5.14 with respect to the Participant's CCP Cap;</p> <p>(c) the Participant requests CDS to do so; or</p> <p>....</p>	<p>(c) monitoring the status and activities of Participants; the exercise of CDS's rights of retention and set off;</p> <p>(d) the taking of a security interest in collateral charged by Participants, including Specific Collateral, Cross-Border Specific Collateral, Settlement Service Collateral, Fund Contributions, Link Fund Contributions and Collateral Pool Contributions;</p> <p>....</p>
<p>5.1.1 General Description</p> <p>CDS employs a variety of mechanisms to manage the risk of a default by a Participant in the Services. Such mechanisms include:</p> <p>(a) monitoring the status and activities of Participants; the exercise of CDS's rights of retention and set off;</p> <p>(b) 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;</p> <p>....</p>	<p>5.1.3 Monitoring of Participants</p> <p>In order to measure potential risks to CDS and the Services, CDS shall monitor the Transactions, Settlement obligations and activity in the system of that Participant. Acting in good faith and in accordance with the Rules, CDS shall take steps to ensure the due performance by the Participant of its obligations to CDS, when CDS considers such action to be necessary to protect the interests of CDS and to be in the best interest of all other Participants. In taking such steps, CDS shall take into consideration any relevant information, including the financial stability or regulatory status of the Participant, the amount of its obligations to CDS, the market volatility, liquidity, concentration or market float of any issue of Securities held by or to be delivered by or to the Participant, and any other factor that CDS considers relevant. The steps CDS may take include:</p>
<p>5.1.3 Monitoring of Participants</p> <p>In order to measure potential risks to CDS and the Services, CDS shall monitor the Transactions, Settlement obligations and activity in the system of that Participant. Acting in good faith and in accordance with the Rules, CDS shall take steps to ensure the due performance by the Participant of its obligations to CDS, when CDS considers such action to be necessary to protect the interests of CDS and to be in the best interest of all other Participants. In taking such steps, CDS shall take into consideration any relevant information, including the financial stability or regulatory status of the Participant, the amount of its obligations to CDS, the market volatility, liquidity, concentration or market float of any issue of Securities held by or to be delivered by or to the Participant, and any other factor that CDS considers relevant. The steps CDS may take include:</p> <p>(a) requiring the Participant to provide additional Contributions to any Fund or Link</p>	<p>(g) requiring the Participant to provide additional Contributions to any Fund or Link Fund of which the Participant is a Member, pursuant to Rules 5.8.2 or 10.6.4;</p> <p>(h) requiring the Participant to grant to CDS a security interest in Specific Collateral, or Cross-Border Specific Collateral pursuant to Rules 5.2.3 or 10.5.3;</p> <p>(i) decreasing the Participant's System-Operating Cap pursuant to Rule 5.10.18;</p> <p>(j) restricting the Participant's right to use system functionality in any Function or Service pursuant to Rule 2.7.1;</p> <p>(k) taking any other feasible steps consistent with the Rules.</p>

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<p>Fund of which the Participant is a Member, pursuant to Rules 5.8.2 or 10.6.4;</p> <p>(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, or 10.5.3;</p> <p>(c) decreasing the Participant's System-Operating Cap pursuant to Rule 5.10.18;</p> <p>(d) restricting the Participant's right to use system functionality in any Function or Service pursuant to Rule 2.7.1;</p> <p>(e) giving information relating to the Participant's CCP Contributions Total in accordance with Rule 5.14.2; or</p> <p>(f) taking any other feasible steps consistent with the Rules.</p>	<p>5.1.4 Right of Retention and Right of Set Off</p> <p>CDS has the right to retain money standing to the credit of any Participant with CDS (including any amounts contributed as Funds Contributions, Collateral Pool Contributions, or Specific Collateral) or payable by CDS to the Participant or in any Account maintained by CDS for the Participant (including any funds credited to its Funds Accounts, any funds credited to its Restricted Collateral Accounts, (subject to the right of the Pledgor to redeem such funds), and any funds reflected in its Pledge Accounts that were Pledged by it (to the extent of the Participant's beneficial interest therein)), in full or part payment of all obligations arising under the Rules that are due and payable by the Participant to CDS, whether such obligations arise from the Service in respect of which the money is held or for which the Account is maintained, or otherwise. CDS has the right to set off a positive Funds Account balance in any Ledger maintained by CDS for a Participant against a negative Funds Account balance in any Ledger maintained by CDS for that Participant or against any obligations arising under the Rules that are due and payable by the Participant to CDS. CDS may exercise its rights of retention and set off regardless of the currencies in which any money, obligation or Funds Account balance may be denominated.</p> <p>....</p>
<p>5.1.4 Right of Retention and Right of Set Off</p> <p>CDS has the right to retain money standing to the credit of any Participant with CDS (including any amounts contributed as Funds Contributions, Collateral Pool Contributions, CCP Collateral, or Specific Collateral) or payable by CDS to the Participant or in any Account maintained by CDS for the Participant (including any funds credited to its Funds Accounts, any funds credited to its Restricted Collateral Accounts, (subject to the right of the Pledgor to redeem such funds), and any funds reflected in its Pledge Accounts that were Pledged by it (to the extent of the Participant's beneficial interest therein)), in full or part payment of all obligations arising under the Rules that are due and payable by the Participant to CDS, whether such obligations arise from the Service in respect of which the money is held or for which the Account is maintained, or otherwise. CDS has the right to set off a positive Funds Account balance in any Ledger maintained by CDS for a Participant against a negative Funds Account balance in any Ledger maintained by CDS for that Participant or against any obligations arising under the Rules that are due and payable by the Participant to CDS. CDS may exercise its rights of retention and set off regardless of the currencies in which any money, obligation or Funds Account balance may be denominated.</p>	<p>5.2.1 Description of Security Interests</p> <p>As more particularly described in this Rule 5 and in Rule 10, each Participant creates security interests in a variety of collateral:</p> <p>(e) Line of Credit</p> <p>Each Participant who is a Debtor using a Line of Credit creates a security interest in favour of its Surety in its Settlement Services Collateral.</p> <p>(f) Fund and Link Fund</p> <p>Each Participant who is a Member of a Fund or a Link Fund creates a security interest in favour of CDS in the Contributions it makes to that Fund or Link Fund.</p>

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<p>....</p> <p>5.2.1 Description of Security Interests</p> <p>As more particularly described in this Rule 5 and in Rule 10, each Participant creates security interests in a variety of collateral:</p> <p>(a) Line of Credit</p> <p>Each Participant who is a Debtor using a Line of Credit creates a security interest in favour of its Surety in its Settlement Services Collateral.</p> <p>(b) Fund and Link Fund</p> <p>Each Participant who is a Member of a Fund or a Link Fund creates a security interest in favour of CDS in the Contributions it makes to that Fund or Link Fund.</p> <p>(c) Collateral Pool</p> <p>Each Participant who is a Member of a Category Credit Ring with a Collateral Pool creates a security interest in favour of CDS (and, if the Participant is an Extender, in favour of the other Extenders) in the Contributions it makes to that Collateral Pool. Each Participant who is a Member of a Category Credit Ring creates a security interest in favour of CDS (and, if the Participant is an Extender, in favour of the other Extenders) in its Settlement Services Collateral.</p> <p>(d) Specific Collateral, CCP Collateral, and Cross-Border Specific Collateral</p> <p>Each Participant may from time to time create a security interest in Specific Collateral, CCP Collateral, or Cross-Border Specific Collateral in favour of CDS.</p> <p>5.2.2 CDS's Security Interests</p> <p>Pursuant to Rules 5.2.2, 5.2.3, 5.8.5, 5.11.2 and 10.5.1 each Participant grants a security interest (the "CDS Security Interests") to CDS in, and pledges, charges and assigns to CDS, its Specific</p>	<p>(g) Collateral Pool</p> <p>Each Participant who is a Member of a Category Credit Ring with a Collateral Pool creates a security interest in favour of CDS (and, if the Participant is an Extender, in favour of the other Extenders) in the Contributions it makes to that Collateral Pool. Each Participant who is a Member of a Category Credit Ring creates a security interest in favour of CDS (and, if the Participant is an Extender, in favour of the other Extenders) in its Settlement Services Collateral.</p> <p>(h) Specific Collateral, and Cross-Border Specific Collateral</p> <p>Each Participant may from time to time create a security interest in Specific Collateral, or Cross-Border Specific Collateral in favour of CDS.</p> <p>5.2.2 CDS's Security Interests</p> <p>Pursuant to Rules 5.2.2, 5.2.3, 5.8.5, 5.11.2 and 10.5.1 each Participant grants a security interest (the "CDS Security Interests") to CDS in, and pledges, charges and assigns to CDS, its Specific Collateral, Fund Contributions, Collateral Pool Contributions, Category Credit Ring Collateral and Cross-Border Collateral, and all dividends, interest, amounts due on maturity, principal repayments and all other entitlements and proceeds arising with respect to such collateral. While the grant of the security interest in the particular collateral is described under different Rules, each security interest in favour of CDS secures the due payment of all amounts due under the Rules from time to time to CDS from the Participant and the performance of all obligations of the Participant to CDS arising from time to time under the Rules. In addition, pursuant to Rule 5.11.2, to secure the due payment of all amounts due under Rule 5.11.1 to the....</p> <p>5.2.3 Security Interest in Specific Collateral</p>

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<p>Collateral, CCP Collateral, Settlement Service Collateral, Fund Contributions, Collateral Pool Contributions, Category Credit Ring Collateral and Cross-Border Collateral, and all dividends, interest, amounts due on maturity, principal repayments and all other entitlements and proceeds arising with respect to such collateral. While the grant of the security interest in the particular collateral is described under different Rules, each security interest in favour of CDS secures the due payment of all amounts due under the Rules from time to time to CDS from the Participant and the performance of all obligations of the Participant to CDS arising from time to time under the Rules. In addition, pursuant to Rule 5.11.2, to secure the due payment of all amounts due under Rule 5.11.1 to the....</p> <p>5.2.3 Security Interest in Specific Collateral and CCP Collateral</p> <p>From time to time, CDS may request a Participant to grant to CDS a security interest in Specific Collateral or CCP Collateral of a specified value. CDS may make such request with respect to Specific Collateral when it determines, in its absolute discretion, that such security interest is prudent to ensure the due discharge of the Participant's obligations to CDS, including an obligation arising from the Participant's acting as an Entitlements Processor or otherwise arising from payments made on or drawn on the Participant, the obligation of the Participant to correct a Short Position and the obligations of the Participant monitored pursuant to Rule 5.1.3. CDS may make such request with respect to CCP Collateral pursuant to Rule 5.14. By delivering Specific Collateral or CCP Collateral to CDS or authorizing CDS to take possession or control of Specific Collateral or CCP Collateral, each Participant grants to CDS a security interest in, and pledges, charges and assigns to CDS, all such Specific Collateral or CCP Collateral together with all dividends, interest, amounts due on maturity, principal repayments and all other entitlements and proceeds arising with respect to such Specific Collateral or CCP Collateral, to secure the due payment of all amounts due under the Rules from time to time to CDS from the Participant and the performance of all obligations of the Participant to CDS arising from time to time under the Rules. The security interest, pledge, charge and assignment created by this Rule 5.2.3 shall survive the</p>	<p>From time to time, CDS may request a Participant to grant to CDS a security interest in Specific Collateral or of a specified value. CDS may make such request with respect to Specific Collateral when it determines, in its absolute discretion, that such security interest is prudent to ensure the due discharge of the Participant's obligations to CDS, including an obligation arising from the Participant's acting as an Entitlements Processor or otherwise arising from payments made on or drawn on the Participant, the obligation of the Participant to correct a Short Position and the obligations of the Participant monitored pursuant to Rule 5.1.3. By delivering Specific Collateral to CDS or authorizing CDS to take possession or control of Specific Collateral each Participant grants to CDS a security interest in, and pledges, charges and assigns to CDS, all such Specific Collateral together with all dividends, interest, amounts due on maturity, principal repayments and all other entitlements and proceeds arising with respect to such Specific Collateral to secure the due payment of all amounts due under the Rules from time to time to CDS from the Participant and the performance of all obligations of the Participant to CDS arising from time to time under the Rules. The security interest, pledge, charge and assignment created by this Rule 5.2.3 shall survive the suspension, termination or withdrawal of the Participant.</p> <p>5.2.4 Definition of Specific Collateral</p> <p>The term "Specific Collateral" means the property and assets, which a Participant delivers to CDS, or of which a Participant authorizes CDS to take possession or control, pursuant to Rule 5.2.3, and does not include Settlement Service Collateral, Fund Contributions, Collateral Pool Contributions.</p> <p>....</p> <p>5.3.1 Form and Value of Collateral</p> <p>The collateral pledged by a Participant as Specific Collateral, Fund Contributions and Collateral Pool Contributions shall be:</p> <ul style="list-style-type: none"> (e) those types of Securities that are eligible as collateral under Bank of Canada's standing loan facility, as such eligible Securities are published by Bank of Canada from time to time;

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<p>suspension, termination or withdrawal of the Participant.</p> <p>5.2.4 Definition of Specific Collateral and CCP Collateral</p> <p>The term “Specific Collateral” means the property and assets, which a Participant delivers to CDS, or of which a Participant authorizes CDS to take possession or control, pursuant to Rule 5.2.3, and does not include Settlement Service Collateral, Fund Contributions, Collateral Pool Contributions or CCP Collateral. The term “CCP Collateral” means the property and assets, which a Participant delivers to CDS, or of which a Participant authorizes CDS to take possession or control, for the purpose of granting a security interest to CDS, pursuant to Rule 5.14.3, and does not include Settlement Service Collateral, Fund Contributions, Collateral Pool Contributions or Specific Collateral.</p> <p>....</p> <p>5.3.1 Form and Value of Collateral</p> <p>The collateral pledged by a Participant as Specific Collateral, CCP Collateral, Fund Contributions and Collateral Pool Contributions shall be:</p> <ul style="list-style-type: none"> (a) those types of Securities that are eligible as collateral under Bank of Canada’s standing loan facility, as such eligible Securities are published by Bank of Canada from time to time; (b) securities issued by the Government of the United States of America, including without limitation, bonds, treasury bills and notes, only for purposes of contributions to the Collateral Pool for RCP Receivers making US dollar Settlements and to the Participant Funds established for the New York Link Service; (c) cash contributions denominated in Canadian dollars; or (d) cash contributions denominated in US dollars, only for purposes of contributions to the Collateral Pool for RCP Receivers making US dollar Settlements and to the 	<ul style="list-style-type: none"> (f) securities issued by the Government of the United States of America, including without limitation, bonds, treasury bills and notes, only for purposes of contributions to the Collateral Pool for RCP Receivers making US dollar Settlements and to the Participant Funds established for the New York Link Service; (g) cash contributions denominated in Canadian dollars; or (h) cash contributions denominated in US dollars, only for purposes of contributions to the Collateral Pool for RCP Receivers making US dollar Settlements and to the Participant Funds established for the New York Link Service. <p>The Procedures and User Guides may specify additional eligibility criteria for such collateral. The Participant shall have the right from time to time to substitute any eligible type of collateral. The recognized value of collateral charged by a Participant as Specific Collateral, a Fund Contribution or a Collateral Pool Contribution shall be the fair market value of the collateral as determined in accordance with the Procedures and User Guides, which shall set out any margin requirements that apply to a particular type of collateral. Such margin requirements may:</p> <p>....</p> <p>5.3.2 Guides. Collateral Administration Ledgers</p> <p>CDS maintains Collateral Administration Ledgers for the management and control of collateral held by it for the purposes of this Rule 5, including Specific Collateral, Fund Contributions and Collateral Pool Contributions, and, after suspension, Settlement Service Collateral. The Collateral Administration Ledgers shall be Ledgers maintained by CDS in its own name. A separate Collateral Administration Ledger is designated by CDS to be used for each Participant. Specific Collateral and Fund Contributions and Collateral Pool Contributions made by a Participant, shall be credited to the Collateral Administration Ledger used for that Participant. CDS shall designate a Collateral Administration Ledger to be maintained in the name</p>

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<p>Participant Funds established for the New York Link Service.</p> <p>The Procedures and User Guides may specify additional eligibility criteria for such collateral. The Participant shall have the right from time to time to substitute any eligible type of collateral. The recognized value of collateral charged by a Participant as Specific Collateral, CCP Collateral, a Fund Contribution or a Collateral Pool Contribution shall be the fair market value of the collateral as determined in accordance with the Procedures and User Guides, which shall set out any margin requirements that apply to a particular type of collateral. Such margin requirements may:</p> <p>....</p> <p>5.3.2 Guides. Collateral Administration Ledgers</p> <p>CDS maintains Collateral Administration Ledgers for the management and control of collateral held by it for the purposes of this Rule 5, including Specific Collateral, CCP Collateral, Fund Contributions and Collateral Pool Contributions, and, after suspension, Settlement Service Collateral. The Collateral Administration Ledgers shall be Ledgers maintained by CDS in its own name. A separate Collateral Administration Ledger is designated by CDS to be used for each Participant. Specific Collateral and CCP Collateral pledged by a Participant, and Fund Contributions and Collateral Pool Contributions made by a Participant, shall be credited to the Collateral Administration Ledger used for that Participant. CDS shall designate a Collateral Administration Ledger to be maintained in the name of the Lead Extender pursuant to Rule (a) upon the suspension of a Member of the Extenders Credit Ring.</p> <p>....</p> <p>5.3.6 Custody of Collateral</p> <p>In exercising any of the powers conferred by this Rule 5.3, CDS shall take reasonable care in what it, in good faith, considers to be necessary to protect the interests of CDS and to be in the best interest of all Participants other than a Defaulter. CDS shall not be the agent, trustee or fiduciary (i) for a Participant in respect of its own Specific Collateral, Fund Contributions, Collateral Pool Contributions or Settlement Service Collateral, CCP Collateral, nor (ii) for any other Category Credit Ring Member (except to the extent that it acts as the bare nominee of the Survivors of a suspended Extender) in respect of its interest in the Category Credit Ring Collateral of a Defaulter. Collateral in the form of money shall be held by CDS in accordance with this Rule 5.3 and need not be applied to reduce any obligation of the Participant to CDS. CDS may invest Specific Collateral, Fund Contributions or Collateral Pool Contributions in a reasonable and prudent manner, acting in the best interests of all Participants. CDS shall segregate any such collateral from its own money and shall make use of such collateral only for the purposes of this Rule 5. The net amount of any interest, dividend or income received by CDS on the collateral of a Participant (other than minimum cash contributions) shall be distributed to the Participant in accordance with the Procedures, provided the Participant's obligations to CDS have been fulfilled. In exercising any of the foregoing powers, CDS shall take reasonable care in what it, in good faith, considers to be necessary to protect the interests of CDS and to be in the best interest of all Participants making use of the Services.</p> <p>5.3.7 Assignment of Collateral by CDS</p> <p>CDS may, in favour of any Person, assign, transfer, pledge, charge or otherwise create a security interest in:</p> <p>(d) any Specific Collateral, Settlement Service Collateral, Fund Contribution, Collateral Pool Contribution or Category Credit Ring Collateral,</p>	<p>of the Lead Extender pursuant to Rule (a) upon the suspension of a Member of the Extenders Credit Ring.</p> <p>....</p> <p>5.3.6 Custody of Collateral</p> <p>In exercising any of the powers conferred by this Rule 5.3, CDS shall take reasonable care in what it, in good faith, considers to be necessary to protect the interests of CDS and to be in the best interest of all Participants other than a Defaulter. CDS shall not be the agent, trustee or fiduciary (i) for a Participant in respect of its own Specific Collateral, Fund Contributions, Collateral Pool Contributions or Settlement Service Collateral, nor (ii) for any other Category Credit Ring Member (except to the extent that it acts as the bare nominee of the Survivors of a suspended Extender) in respect of its interest in the Category Credit Ring Collateral of a Defaulter. Collateral in the form of money shall be held by CDS in accordance with this Rule 5.3 and need not be applied to reduce any obligation of the Participant to CDS. CDS may invest Specific Collateral, Fund Contributions or Collateral Pool Contributions in a reasonable and prudent manner, acting in the best interests of all Participants. CDS shall segregate any such collateral from its own money and shall make use of such collateral only for the purposes of this Rule 5. The net amount of any interest, dividend or income received by CDS on the collateral of a Participant (other than minimum cash contributions) shall be distributed to the Participant in accordance with the Procedures, provided the Participant's obligations to CDS have been fulfilled. In exercising any of the foregoing powers, CDS shall take reasonable care in what it, in good faith, considers to be necessary to protect the interests of CDS and to be in the best interest of all Participants making use of the Services.</p> <p>5.3.7 Assignment of Collateral by CDS</p> <p>CDS may, in favour of any Person, assign, transfer, pledge, charge or otherwise create a security interest in:</p> <p>(d) any Specific Collateral, Settlement Service Collateral, Fund Contribution, Collateral Pool Contribution or Category Credit Ring Collateral,</p>

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<p>Contributions or Settlement Service Collateral, nor (ii) for any other Category Credit Ring Member (except to the extent that it acts as the bare nominee of the Survivors of a suspended Extender) in respect of its interest in the Category Credit Ring Collateral of a Defaulter. Collateral in the form of money shall be held by CDS in accordance with this Rule 5.3 and need not be applied to reduce any obligation of the Participant to CDS. CDS may invest Specific Collateral, CCP-Collateral, Fund Contributions or Collateral Pool Contributions in a reasonable and prudent manner, acting in the best interests of all Participants. CDS shall segregate any such collateral from its own money and shall make use of such collateral only for the purposes of this Rule 5. The net amount of any interest, dividend or income received by CDS on the collateral of a Participant (other than minimum cash contributions) shall be distributed to the Participant in accordance with the Procedures, provided the Participant's obligations to CDS have been fulfilled. In exercising any of the foregoing powers, CDS shall take reasonable care in what it, in good faith, considers to be necessary to protect the interests of CDS and to be in the best interest of all Participants making use of the Services.</p>	<p>(e) any investments made by CDS of such collateral, and</p> <p>(f) any right, title or interest it may have arising under this Rule 5,</p> <p>for the purpose of securing</p> <p>(d) any obligations of CDS with respect to any Service;</p> <p>(e) any loan made to CDS incurred for the purposes of any Service,</p> <p>(f) any indebtedness of CDS incurred for the purposes of any Service,</p> <p>provided that such Person shall not be entitled to realize on such collateral except in circumstances in which CDS would be entitled to do so pursuant to the Rules.</p> <p>....</p>
<p>5.3.7 Assignment of Collateral by CDS</p>	<p>9.3.1 Collateral of Suspended Participant</p>
<p>CDS may, in favour of any Person, assign, transfer, pledge, charge or otherwise create a security interest in:</p>	<p>(a) Collateral Administration Ledger</p> <p>Upon the suspension of a Participant, the Settlement Service Collateral of the suspended Participant shall be transferred from its Risk Accounts to a Collateral Administration Ledger of CDS without any instructions from or consent by the suspended Participant. Immediately upon the suspension of a Participant, all of its Collateral is held in the Collateral Administration Ledger.</p>
<p>(a) any Specific Collateral, CCP-Collateral, Settlement Service Collateral, Fund Contribution, Collateral Pool Contribution or Category Credit Ring Collateral,</p>	<p>(b) Specific Collateral</p> <p>The suspended Participant's Specific Collateral and shall be realized by CDS and the net proceeds applied in accordance with Rule 9.3.13.</p>
<p>(b) any investments made by CDS of such collateral, and</p>	
<p>(c) any right, title or interest it may have arising under this Rule 5,</p>	
<p>for the purpose of securing</p>	
<p>(a) any obligations of CDS with respect to any Service;</p>	
<p>(b) any loan made to CDS incurred for the purposes of any Service,</p>	

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<p>(c) any indebtedness of CDS incurred for the purposes of any Service,</p> <p>provided that such Person shall not be entitled to realize on such collateral except in circumstances in which CDS would be entitled to do so pursuant to the Rules.</p> <p>....</p> <p>5.14 CCP CAP FOR CCP FUNCTIONS</p> <p>5.14.1 Calculation of CCP Cap</p> <p>The “CCP Cap” means a threshold amount with respect to the CCP Functions that if exceeded requires the pledging of CCP Collateral, which threshold amount is established in accordance with this Rule 5.14. The amount of the CCP Cap shall be the same for all Participants, regardless of the category in which the Participant is classified and regardless of the number of CCP Functions used by the Participant. The amount of the CCP Cap shall be set out in the Procedures. The CCP Cap shall be reviewed on the schedule and in accordance with the process set out in the Procedures.</p> <p>5.14.2 Calculation of Participant's CCP Contributions Total</p> <p>For each Participant using a CCP Function, CDS calculates the Participant's “CCP Contributions Total”, which is an amount determined in accordance with the Procedures taking into account the Contributions required to be made by the Participant to the Funds for all of the CCP Functions used by it. CDS compares the CCP Contributions Total of each Participant to the CCP Cap.</p> <p>5.14.3 CCP Contributions Compared to CCP Cap</p> <p>(a) Exceeds 75% of CCP Cap</p> <p>In the event that the Participant's CCP Contributions Total exceeds 75% of the CCP Cap, then upon receiving such information from CDS pursuant to Rule 5.14.4, the Participant shall advise CDS of the reasons for that situation, the steps it will take to reduce its CCP Contributions Total, and the time when it expects its CCP Contributions Total to be reduced to less than 75% of the CCP Cap.</p>	

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<p>(b) Exceeds 100% but does not exceed 150% of CCP Cap</p> <p>In the event that the Participant's CCP Contributions Total exceeds the CCP Cap and does not exceed 150% of the CCP Cap, then the Participant shall grant to CDS a security interest in CCP Collateral in an amount equal to the amount by which its CCP Contributions Total exceeds the CCP Cap.</p> <p>(c) Exceeds 150% of CCP Cap</p> <p>In the event that the Participant's CCP Contributions Total exceeds 150% of the CCP Cap, then the Participant shall grant to CDS a security interest in CCP Collateral in an amount equal to (i) the amount by which its CCP Contributions Total exceeds the CCP Cap plus (ii) the amount by which its CCP Contributions Total exceeds 150% of the CCP Cap</p> <p>(d) Release of Excess CCP Collateral</p> <p>When the CCP Contributions Total of a Participant is reduced, any excess CCP Collateral delivered by it shall be released at the request of the Participant.</p> <p>5.14.4 Notice re CCP Cap</p> <p>CDS shall give notice to the following persons when a Participant's CCP Contributions Total exceeds the specified percentage of the CCP Cap:</p> <ul style="list-style-type: none"> (i) 75% of CCP Cap: the Participant and a Signing Officer of the Participant, and the Appropriate Authority; (ii) 100% of CCP Cap: the Participant, and a Signing Officer of the Participant, the Appropriate Authority and all other Participants using any of the CCP Functions used by the Participant; and (iii) 150% of CCP Cap: the Participant and a Signing Officer of the Participant, and the Appropriate Authority and all other 	

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<p style="text-align: center;">Participants using any of the CCP Functions used by the Participant.</p> <p>CDS shall also give notice to the same persons when the Participant's CCP Contributions Total is reduced to the specified percentage of the CCP Cap. Each notice shall identify the Participant and the specified percentage of the CCP Cap which has been exceeded or to which the Participant's CCP Contributions Total has been reduced.</p> <p>The Appropriate Authority is:</p> <ul style="list-style-type: none"> (a) the principal Canadian self-regulatory organization of which the Participant is a member; (b) failing which, the principal Canadian Regulatory Body having jurisdiction over the Participant; or (c) failing which, the principal foreign Regulatory Body having jurisdiction over the Participant. <p>....</p> <p>9.3.1 Collateral of Suspended Participant</p> <p>(a) Collateral Administration Ledger</p> <p>Upon the suspension of a Participant, the Settlement Service Collateral of the suspended Participant shall be transferred from its Risk Accounts to a Collateral Administration Ledger of CDS without any instructions from or consent by the suspended Participant. Immediately upon the suspension of a Participant, all of its Collateral is held in the Collateral Administration Ledger.</p> <p>(b) Specific Collateral and CCP Collateral</p> <p>The suspended Participant's Specific Collateral and CCP Collateral shall be realized by CDS and the net proceeds applied in accordance with Rule 9.3.13.</p>	