

**CDS Clearing and Depository Services Inc. (CDS®)**

**Proposed Amendments to CDS Procedures -  
CDS – DTCC Payment Service**

**NOTICE AND REQUEST FOR COMMENT**

**A. DESCRIPTION OF THE PROPOSED AMENDMENTS**

***Background***

The Canada Revenue Agency (CRA) imposes taxes on entitlement payments from Canadian sources. Where the entitlement payments are made, or are to be made, to non-resident security holders, these taxes are imposed by way of an obligation on financial intermediaries to withhold (at certain specified rates) a percentage of the entitlement prior to making the entitlement payment onward to another intermediary or to the beneficial security-holder. The rate at which an intermediary, like the CDS, withholds taxes, depends on instructions received from a beneficial security-holder or a financial intermediary on their behalf.

Accordingly, the Depository & Clearing Corporation (DTCC) who holds Canadian securities on behalf of their members is obligated to withhold and remit taxes from dividends, interests and trust income payments. In providing this service to its members, DTCC engages CDS to act as DTCC's paying, withholding, and remittance agent for Canadian securities registered in the name of DTCC's and CDS's nominees, CEDE & Co and CDS & Co, respectively. DTCC provides instructions, on behalf of its members, specifying the rate at which CDS should withhold on the entitlements.

CDS process Canadian source entitlements for DTCC as a standalone service. Using spreadsheets and a series of macros to upload DTCC's instructions and RMS reports manually. CDS calculates the entitlements due, withholds taxes, pays Canadian DTCC members who are also Participants in CDS's system via a funds transfer in CAD, converts CAD to USD, and wires funds to DTCC to pay their US members through DTCC's system.

The purpose of implementing the proposed process is to eliminate the manual intervention and usage of unsupported spreadsheets and macros and replace these with an automated application which will improve operational efficiency, reduce cost, and add value for CDS's Participant customers.

***Description of the CDS-DTCC Payment Service***

The CDS-DTCC Payment Service (CDPS) provides an automated solution to an existing manual process which will simplify, modernize, and improve the delivery of tax withholding services, and will:

- Calculate gross payments, net payments and withholding tax amounts for each event based on DTCC's instructions.
- Calculate the conversion of CAD to USD based on a currency exchange rate entered by users, for daily payments to DTCC.
- Create payment packages allowing multiple payments at different exchange rates to be made on the same day.
- Generate an online form containing the calculated amounts for each entitlement payment with the ability to expand the payment details comprising the total amount(s).
- Identify payments for which funds have been received from the issuer.
- Create funds transfers to credit Canadian DTCC members for the amount of any given entitlement.
- Retain entitlement calculations, including a monthly summary of gross and net payments, withholding taxes, remittance, and currency conversion for a period of seven (7) years

## **B. NATURE AND PURPOSE OF THE PROPOSED CDS PROCEDURE AMENDMENTS**

The proposed implementation of an automated web application changes the current process of communicating information related to entitlement payments for entities that are both DTCC members and CDS participants. In lieu of receiving an email from CDS, the proposed process allows access to the application, view of a Participant's daily funds transfer records, and facilitates the export of these records to Excel as a DTCC member who received CAD.

Participants' funds transfer records will be available, for seven (7) years after the date of payment, and may be accessed throughout the lifecycle of the records for Canadian securities held with DTCC.

The proposed procedure amendment provides specific instruction with regard to where and how to access the application and how to view/export these records to Excel, if printing is required.

## **C. IMPACT OF THE PROPOSED AMENDMENTS**

CDPS is not a core CDS service, is not a critical or an essential part of CDS's clearing, settlement or depository service offerings, and will only impact those participants who hold Canadian issued securities as a member of DTCC and receive entitlement payments through CDS on behalf of DTCC.

Today we send a manual funds adjustment to participants receiving funds. Under the proposed process, a similar funds adjustment will be triggered on the basis of the information calculated by the web application, and an InterLink message will be sent to CDSX to actually execute that transaction. Once the transaction is successfully completed, CDSX will send an Interlink message to populate CDPS with confirmation of the funds transfer and to each participant who was paid the entitlement. Individual email communications between CDS and affected participants with respect to these payments will be eliminated.

Subsequent to the payment of an entitlement under this service, DTCC and their Canadian participants who receive Canadian funds transfer payment as a result of holding Canadian securities with DTCC, can access CDPS to view and export details of all payments associated their funds transfers to Excel.

### ***Risks and Compliance Costs***

The proposed automated solution is not expected to result in increased in risk or compliance costs for CDS's customers. Rather, automation specifically reduces both risk and compliance costs and materially improves the delivery of the service.

- Automation will permit CDS to continue providing a value-added service and mitigate operational risk by reducing the number of manual inputs/actions
- The replacement of manually created and managed spreadsheets with a web-based application will reduce the risk of data corruption
- Automation will permit the retention of payment records for seven (7) years and meet regulatory financial reporting standards.

## **D. DESCRIPTION OF THE PROCEDURE DRAFTING PROCESS**

### ***Development Context***

The proposed amendments to the Procedures have been developed in conjunction with the design, development, and implementation of a new web application to automate CDPS.

### ***Procedure Drafting Process***

The CDS procedure amendments are drafted by CDS's Product Development group, and subsequently 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 a cross-section of the CDS participant community and it meets on a monthly basis.

These amendments were reviewed and approved by the SDRC on November 24, 2016.

### ***Consultation***

CDS has provided continuous communication with, and status updates to, DTCC of the proposed change; that of accessing a CDS web application by their Canadian participants (including DTCC itself) to view and export funds transfer payment details to Excel instead of receiving an email.

CDS facilitates consultation through a variety of means, including regularly scheduled SDRC subcommittee meetings, which provide a forum for detailed requirement review, and monthly meetings with service bureaus to discuss development impacts to them. All development initiatives are also presented to the Investment Industry Regulatory Organization of Canada's (IIROC) Financial Administrators Section (FAS) working group.

### ***Implementation Plan***

- CDS operational staff and customer service will update internal procedures, prepare training material, and conduct training
- CDS will issue a Bulletin announcing that CDS-DTCC participants will access their Canadian funds transfer payment from the CDPS web application.

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

The amendments to Participant Procedures may become effective upon approval of the amendments by the Recognizing Regulators following public notice and comment. CDS proposes to implement the proposed amendment for the automated CDS-DTCC payment Service, pending regulatory approval, on March 25, 2017, and the proposed procedure amendments on April 3, 2017.

## **E. TECHNOLOGICAL SYSTEM CHANGES**

CDS is developing a web based application which will simplify, modernize and improve the current manual DTCC-TED Service by developing a web based application.

This application will be used by CDS to manage the following elements of the DTCC-TEDS Service:

- Calculating the gross dividend, interest/ maturity payments and Trust income payments
- Withholding taxes on dividend and interest payments
- Paying USD to DTCC and CAD to DTCC Canadian participants
- Remitting taxes in CAD and USD to CRA for Canadian sourced dividend and interest payments

Prior to submission for regulatory approval, the proposed amendment was discussed with CDS internal Risk Team who advised that there is no financial or operational risk in the automation of the service. Rather, their opinion is that automation will minimize risk, reduce and improve the efficiency of the service.

## F. PUBLIC INTEREST ASSESSMENT

CDS submits that the proposed amendments, as developed and described in this Notice, are not contrary to the public interest.

## G. COMMENTS

Comments on the proposed amendments should be in writing and submitted within 30 calendar days following the date of publication of this notice in the Ontario Securities Commission Bulletin or the *Autorité des marchés financiers*' Bulletin to:

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Toronto, Ontario M5H 2C9  
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Email: [Johann.Lochner@tmx.com](mailto:Johann.Lochner@tmx.com)

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

M<sup>e</sup> Anne-Marie Beaudoin  
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Autorité des marchés financiers  
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All comments received during the comment period may be made public.

## **H. PROPOSED CDS-DTCC PAYMENT SERVICE PROCEDURE AMENDMENTS**

Interested parties may access the proposed amendments to the CDS Procedures on the User documentation 'Revisions' web-page at:

<http://www.cds.ca/cds-services/user-resources/user-documentation>.

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### 3.11 TRAX Entitlements Tracking

TRAX Entitlements Tracking provides participants with the ability to monitor outstanding and settled transactions in real-time, for the following event types:

- DIS (cash distribution)
- DIV (cash dividend)
- DWO (dividend with option)
- RWS (rights/warrants distribution)
- SPN (spin off)
- SDS (stock distribution)
- SDV (stock dividend)
- SSP (stock split).

Based on the event type, from record date+1 to 30 calendar days after the event is paid, participants can view the following:

- Details of the event
- CDSX record date and adjusted record date positions
- Settled trades
- Settled CNS positions
- Projected and final payment calculations
- Adjustments related to due bill processing
- Outstanding trades, CNS positions and pledge security loans
- Settled entitlement claims.

To request access to this application, use the IBM Tivoli Identity Manager self-care interface ([www.cdsservices.ca/itm/self](http://www.cdsservices.ca/itm/self)).

Users can request the following role per CUID within TRAX Entitlements Tracking.

Role	Description
Viewer	View events and related transactions

### 3.12 CDS-DTCC Payment Service

The CDS-DTCC Payment Service (CDPS) is a web-based application that enables CDS DTC participants to view the CDSX funds transfer details associated with entitlement payments that were processed by CDS on behalf of DTC.

Funds transfer details are maintained in CDPS for seven years and, if required, can be exported to Excel for printing.

To request access to CDPS, use the IBM Tivoli Identity Manager Self-care interface ([www.cdsservices.ca/itim/self](http://www.cdsservices.ca/itim/self)).

Users can request the following role per CUID within CDPS.

<u>Role</u>	<u>Description</u>
<u>Viewer</u>	<ul style="list-style-type: none"><li>• <u>View funds transfer details</u></li><li>• <u>Export funds transfer to Excel</u></li></ul>



Effective date:

Insert CDS NR7-R Certification service column

# Web Services Request for CDS Participants

Company name:	Company code:	Mailing address: (street address, city, postal code)
Contact name:	Phone number:	

CUID	Electronic Alert service	Corporate Action Liability Management service	TRAX Trade Confirmation Statistics	TRAX Transfer Requests	New York Link Monitoring service	TRAX Entitlements Tracking

### Legal disclaimer

These services are covered by the *CDS Participant Rules and Procedures*.

Internet related delays or communication/network outages are beyond the control and responsibility of CDS and may delay or disrupt the participant's ability to access the CDS web services and/or web and email alerts created by these services. Participants are responsible for maintaining their internet connections to receive web alerts and/or maintaining and monitoring their designated email addresses to ensure that they receive email alerts.

Email alerts sent by CDS are not encrypted so the confidentiality or security of the information is not guaranteed.

By signing below, the signing officer, on behalf of the participant, accepts the legal disclaimer above and all the terms and conditions for the service as set out in the CDS Participant Rules and procedures.

### Customer authorization

Name:	Title:
Authorized signature:	Date:

### CDS use only

<input type="checkbox"/> Request verified by Customer Service	Name:	Date:
<input type="checkbox"/> Authorization verified by Security Systems	Name:	Date:
<input type="checkbox"/> Request completed by Security Systems	Name:	Date:

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Effective date:



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<input type="checkbox"/> Authorization verified by Security Systems	Name:	Date:
<input type="checkbox"/> Request Completed by Security Systems	Name:	Date: