

CDS Clearing and Depository Services Inc. (CDS®)

MATERIAL AMENDMENTS TO CDS RULES

AMENDMENTS RELATED TO THE CAD AND USD RECEIVERS OF CREDIT CATEGORY CREDIT RINGS

REQUEST FOR COMMENTS

A. DESCRIPTION OF THE PROPOSED CDS RULE AMENDMENTS

The proposed amendments to the CDS Participant Rules (“Amendments”) make changes with respect to the Canadian dollar and United States dollar Receivers of Credit (“CAD RCP” and “USD RCP”, respectively) category credit rings (“CCR”). Specifically, the Amendments require Participants in the CAD RCP and USD RCP CCRs, who have current or potential exposures, to fully cover their own losses with a high degree of confidence.

The Amendments to the Rules establish the legal framework for the changes to the CCRs. Technical details are more appropriately described in the “Material Amendments to CDS Procedures. Amendments Related to the CAD and USD Receivers of Credit Category Credit Rings,” to be published concurrently with this Notice.

CDS’s Recognition Orders require the observance, as soon as possible, of the CPMI-IOSCO Principles for Financial Market Infrastructures (“PFMI”). CDS’s PFMI self-assessment identified the need to reduce leverage in the CAD RCP and USD RCP CCRs by reducing the mutualization of exposures in favour of increased collateralization of individual exposures.

B. NATURE AND PURPOSE OF THE PROPOSED CDS RULES AMENDMENTS

Currently, Participants in the CAD RCP and USD RCP CCRs benefit from common use collateral held in their respective pools. Such collateral, pledged by all Participants in the CCRs, has a leveraged effect on individual contributions. Consequently, Participant exposures are not fully covered. This structure does not meet with recognized international standards as described in Principle 4 and Key Considerations 3.4.12 and 3.4.18 of the PFMIs.

Amendments – CAD Receivers of Credit Category Credit Ring

The CCR members will see each member’s elected collateral contribution and the total amount of collateral in the pool. The corresponding system operating caps will be calculated each quarter and will be locked-in for the quarter as is presently the case. Under this approach the member’s own elected collateral requirement will be its Initial ACV rather than the sum total of all the members’ collateral requirement. The range of elected collateral requirement for the CAD RCP CCR is between C\$60 thousand and C\$1 million.

This is in contrast to the current approach where a CAD RCP receives an Initial ACV leveraged-up to an amount not exceeding the sum total collateral contributions of all CAD RCP Participants.

The proposed changes to the CAD RCP CCR in conjunction with the application of the ACV edit in CDSX will ensure that CAD RCP credit exposures will be collateralized fully and simultaneously with a high degree of confidence.

In the event of a default, the following defaulter's resources are added to those already available to collateralize the corresponding cap utilization: ACV collateral allocated to the CAD Receivers of Credit CCR.

To obtain the necessary liquidity to make the replacement payment, CDS uses the suspended participant's own collateral pool contributions, eligible settlement service collateral allocated to the CAD RCP CCR and any specific collateral that the suspended participant had pledged to the collateral pool. If necessary, the contributions of the survivors in the suspended participant's collateral pool are also used by CDS to obtain liquidity.

Amendments – USD Receivers of Credit Category Credit Ring

Each USD RCP Participant will be credited with a USD cap equal to its elected USD RCP CCR cap.

Each USD RCP may elect a cap up to a maximum amount agreed to by the CDS and the Receivers of Credit Council.

Each USD RCP Participant's collateral requirement is equal to its elected cap.

C. IMPACT OF THE PROPOSED CDS RULE AMENDMENTS

- (a) CDS Clearing - The Amendments will ensure CDS's observance of the PFMI and adoption of a recognized international standard for market infrastructures. The Amendments will also enhance risk management by removing leverage from the CCRs.
- (b) CDS Participants -The Amendments will benefit Participants by providing them with access to a market infrastructure that meets global standards.
- (c) & (d) Other Market Participants and Securities and Financial Markets in General -- The Amendments will help mitigate systemic risk and contribute the efficiency of Canadian capital markets.

C.1 Competition

The Amendments will apply to all CDS Participants who currently are, or may choose to become Participants in the CAD RCP and USD RCP CCRs. From a fair access perspective, no CDS Participant will be disadvantaged or otherwise prejudiced with the introduction of these changes.

C.2 Risks and Compliance Costs

Amendments to the collateralization of the CAD RCP and USD RCP CCRs will result in changes to CDS's Risk Model and Procedures. CDS does not foresee other risks or compliance costs accruing to CDS Participants or other stakeholders.

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

The PFMI are minimum international standards for enhancing the safety and efficiency of clearing, settlement and recording arrangements, which aim to limit systemic risk and foster transparency and financial stability. The PFMI apply to CCPs, central securities depositories ("CSDs") and security

settlement systems (“SSS”). CDS engages in all three of these market infrastructure activities. According to the terms of CDS’s recognition order requirements, CDS is required to observe PFMLs as soon as possible.

The Amendments aim to mitigate credit risk exposure by reducing CDS’s reliance on the mutualization of risk resources. The Amendments align with Principle 4 (Credit Risk) and Key Considerations 3.4.12 and 3.4.18 of the PFMLs which call for collateral pools to be collateralized such that current and potential future exposures to each participant are fully covered with a high degree of confidence (i.e. single-tailed confidence level of at least 99 percent of the estimated distribution of future exposures).

D. DESCRIPTION OF THE RULE DRAFTING PROCESS

D.1 Development Context

CDS actively engaged internal and external discussion to explore its options. It established separate workgroups with Participants from the CAD RCP and USD RCP CCRs. The workgroups agreed upon a preferred approach which was socialized by the Participants in the workgroup back to their respective organizations where they were endorsed. CDS also prepared documents describing the proposed Amendments which were tabled at the Risk Advisory Committee (“RAC”), a CDS Participant committee that meets monthly.

D.2 Rule Drafting Process

The Amendments were drafted by CDS’s Risk Management group, and were subsequently submitted for consultation to the Legal Drafting Group (“LDG”) on July 14, 2015. 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. On July 27th and 28th 2015, the proposed amendments were submitted to CDS’s Risk Management and Audit Committee (“RMAC”) and CDS’s Board of Directors (“BofD”) with a recommendation that they be approved.

D.3 Issues Considered

Consideration was given to the operational impacts that the enhancements might create for CDS Participants as outlined in section C of this Notice.

D.4 Consultation

This Amendment was initiated by CDS. CDS received input from the RAC on the concept and methodology underlying this Amendment, while the LDG commented on its legal drafting. The SDRC is expected to comment on the operational aspects of this Amendment as it is described in “Material Amendments to CDS Procedures. Amendments Related to the CAD and USD Receivers of Credit Category Credit Rings” to be published concurrently with this Notice.

CDS’s Customer Service account managers will provide continuous communication and status updates of all proposed changes to clients, as well as soliciting input on those changes.

CDS facilitates consultation through a variety of means, including regularly scheduled SDRC subcommittee meetings and monthly meetings with service bureaus to discuss potential development impacts to them. As a courtesy, development initiatives are presented to the Investment Industry Regulatory Organization of Canada’s (“IIROC”) Financial Administrators Section (“FAS”) working group.

D.5 Alternatives Considered

Alternatives, essentially minor variations of the preferred option, were considered. The proposed methodology is the result of input received from the members of the RAC.

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 upon approval from the Recognizing Regulators following public notice and comment.

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

No comparable or similar procedures were available for other clearing agencies in order to conduct an analysis.

G. PUBLIC INTEREST ASSESSMENT

CDS has determined that the proposed amendments are not contrary to the public interest.

H. 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 to:

Legal Department
Attn: Hugo Maureira, Legal Counsel
CDS Clearing and Depository Services Inc.
85 Richmond Street West
Toronto, Ontario M5H 2C9
Fax: 416-365-1984e-mail: hmaureira@cds.ca

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
Courrier électronique: consultation-encours@lautorite.qc.ca

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

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
Email: dmackay@bcsc.bc.ca

Mark Wang
Manager, Legal Services
British Columbia Securities Commission
701 West Georgia Street
P.O. Box 10142, Pacific Centre
Vancouver, B.C., V7Y 1L2
Fax: 604-899-6506
Email: mwang@bcsc.bc.ca

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

I. PROPOSED CDS RULES AMENDMENTS

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

APPENDIX “A”
PROPOSED CDS RULE AMENDMENTS

Text of CDS Participant Rules marked to reflect proposed amendments	Text of CDS Participant Rules reflecting the adoption of proposed amendments
<p>[marked text of rules – additions underlined and in green font; deletions are strikethrough text and in red font]</p>	
<p>3.7.3. Release of System-Operating Cap Information</p> <p>CDS shall inform all Capped Participants of the Formula Amount and System-Operating Cap applicable to each of Member of its Category Credit Ring, periodically upon the receipt of information from Participants and upon any change in the relevant information. CDS shall also make available the factors used to calculate the Formula Amount. CDS may also make such information available to Bank of Canada and to any Regulatory Body upon request. CDS shall inform all Receivers of the identity of the Members of the Credit Rings for RCP Receivers making Canadian dollar Settlements and US dollar Settlements <u>including the pool factor for the RCP Receivers making Canadian dollar Settlements.</u> , as well as the leverage factor for each such Collateral Pool. If a Capped Participant is the Customer of a Designated Banker for a currency, CDS shall inform the Designated Banker of the Customer's Formula Amount and System Operating Cap for that currency.</p>	<p>3.7.3. Release of System-Operating Cap Information</p> <p>CDS shall inform all Capped Participants of the Formula Amount and System-Operating Cap applicable to each Member of its Category Credit Ring, periodically upon the receipt of information from Participants and upon any change in the relevant information. CDS shall also make available the factors used to calculate the Formula Amount. CDS may also make such information available to Bank of Canada and to any Regulatory Body upon request. CDS shall inform all Receivers of the identity of the Members of the Credit Rings for RCP Receivers making Canadian dollar Settlements and US dollar Settlements including the pool factor for the RCP Receivers making Canadian dollar Settlements.. If a Capped Participant is the Customer of a Designated Banker for a currency, CDS shall inform the Designated Banker of the Customer's Formula Amount and System Operating Cap for that currency.</p>
<p>5.3.4 Control of Collateral Administration Ledgers</p> <p>CDS controls and administers the Collateral Administration Ledgers in accordance with these Rules. CDS shall permit the Participant for whom a Collateral Administration Ledger is used to have access to that Ledger for limited purposes, including making inquiries as to the Securities and funds credited to the Accounts of that Ledger and requesting (but not implementing) certain transactions involving such Accounts, including the substitution of collateral. CDS's control of the Collateral Administration Ledgers, and accordingly its control and possession of the Securities and funds credited to the Accounts of the Collateral Administration Ledgers, shall not be deemed to be affected or impaired in any way by the limited access granted to Participants. In the case of the Collateral Pool Contributions and Settlement Service Collateral of Federated Participants, Settlement Agents and RCP Receivers, CDS</p>	<p>5.3.4 Control of Collateral Administration Ledgers</p> <p>CDS controls and administers the Collateral Administration Ledgers in accordance with these Rules. CDS shall permit the Participant for whom a Collateral Administration Ledger is used to have access to that Ledger for limited purposes, including making inquiries as to the Securities and funds credited to the Accounts of that Ledger and requesting (but not implementing) certain transactions involving such Accounts, including the substitution of collateral. CDS's control of the Collateral Administration Ledgers, and accordingly its control and possession of the Securities and funds credited to the Accounts of the Collateral Administration Ledgers, shall not be deemed to be affected or impaired in any way by the limited access granted to Participants. In the case of the Collateral Pool Contributions and Settlement Service Collateral of Federated Participants,</p>

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<p>controls the Collateral Administration Ledgers, and accordingly controls and possesses such Securities and funds credited to the Collateral Administration Ledgers, for its own benefit and, with respect to Settlement Service Collateral of a Defaulter, for <u>CDS's own benefit and for</u> the benefit of any Surety of the Defaulter <u>in accordance with the calculations identified in the Procedures</u>. In the case of the Collateral Pool Contributions and Settlement Service Collateral of Extenders, CDS controls the Collateral Administration Ledgers, and accordingly controls and possesses such Securities and funds credited to the Collateral Administration Ledgers, both for its own benefit and as the bare nominee of the Extenders other than the Extender for whom the Ledger is used, and, with respect to Settlement Service Collateral of a Defaulter, for the benefit of any Surety of the Defaulter. Prior to the suspension of an Extender, CDS may take any action permitted by these Rules at the request of the Extender with respect to its Collateral Pool Contribution and the Collateral Administration Ledger used for it. After the suspension of an Extender and payment by the other Extenders as Survivors, CDS shall take any action permitted by these Rules at the request of the Lead Extender with respect to the Defaulter's Category Credit Ring Collateral, the Collateral Administration Ledger used for the Defaulter and the Collateral Administration Ledger maintained in the name of the Lead Extender pursuant to Rule 9.3.2; and the Survivors shall be deemed to have acknowledged the appropriateness of such actions taken by CDS.</p>	<p>Settlement Agents and RCP Receivers, CDS controls the Collateral Administration Ledgers, and accordingly controls and possesses such Securities and funds credited to the Collateral Administration Ledgers, for its own benefit and, with respect to Settlement Service Collateral of a Defaulter, for CDS's own benefit and for the benefit of any Surety of the Defaulter in accordance with the calculations identified in the Procedures. In the case of the Collateral Pool Contributions and Settlement Service Collateral of Extenders, CDS controls the Collateral Administration Ledgers, and accordingly controls and possesses such Securities and funds credited to the Collateral Administration Ledgers, both for its own benefit and as the bare nominee of the Extenders other than the Extender for whom the Ledger is used, and, with respect to Settlement Service Collateral of a Defaulter, for the benefit of any Surety of the Defaulter. Prior to the suspension of an Extender, CDS may take any action permitted by these Rules at the request of the Extender with respect to its Collateral Pool Contribution and the Collateral Administration Ledger used for it. After the suspension of an Extender and payment by the other Extenders as Survivors, CDS shall take any action permitted by these Rules at the request of the Lead Extender with respect to the Defaulter's Category Credit Ring Collateral, the Collateral Administration Ledger used for the Defaulter and the Collateral Administration Ledger maintained in the name of the Lead Extender pursuant to Rule 9.3.2; and the Survivors shall be deemed to have acknowledged the appropriateness of such actions taken by CDS.</p>
<p>5.6.7 Relative Priority of Surety's Security Interest</p> <p>If the Debtor is a Receiver (whether an RCP Receiver or a Non-Contributing Receiver), each Surety Security Interest in Settlement Service Collateral <u>is</u> granted by that Debtor to a Surety <u>and CDS and shall be allocated amongst the Surety and CDS in accordance with the methodology identified in the Procedures.</u> shall rank in priority to the Category Credit Ring Security Interests in Settlement Service Collateral granted by the Debtor. If the Debtor is not a Receiver, the Category Credit Ring Security Interests in Settlement Service Collateral granted by the Debtor shall rank in priority to any Surety Security Interest in Settlement Service Collateral granted by that Debtor to a Surety.</p>	<p>5.6.7 Relative Priority of Surety's Security Interest</p> <p>If the Debtor is a Receiver (whether an RCP Receiver or a Non-Contributing Receiver), each Security Interest in Settlement Service Collateral is granted by that Debtor to a Surety and CDS and shall be allocated amongst the Surety CDS in accordance with the methodology identified in the Procedures. If the Debtor is not a Receiver, the Category Credit Ring Security Interests in Settlement Service Collateral granted by the Debtor shall rank in priority to any Surety Security Interest in Settlement Service Collateral granted by that Debtor to a Surety.</p>

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<p>5.6.8 Holding of Settlement Service Collateral</p> <p>If a Debtor is a Member of a Category Credit Ring, the Debtor's Settlement Service Collateral, which is subject to the Surety Security Interest granted by the Participant as a Debtor <u>in accordance with Rule 5.6.7</u>, may also be subject to the Category Credit Ring Security Interests granted by the Participant as a Member. All Settlement Service Collateral in the control and possession of a Surety is held by the Surety for CDS and for all Sureties establishing Lines of Credit for the Debtor, to secure payment in the priority determined by Rule 5.11.4 of the obligations of the Debtor as a Defaulter, of the obligations of the Debtor as a Member of a Category Credit Ring and of all amounts owing by the Debtor to the Surety and other Sureties arising from the Lines of Credit established for that Debtor. If the Debtor is a Defaulter and is not a Receiver, and a demand for payment of the obligations of the Category Credit Ring has been made by CDS, then the Surety shall transfer the Settlement Service Collateral in accordance with the instructions of the Category Credit Ring Members other than the Defaulter. If the Debtor is a Defaulter and is a Receiver, and a demand for payment of the obligations of the Category Credit Ring has been made by CDS, then the Surety, after realizing upon such collateral in accordance with Rule 5.6.9, shall transfer the surplus of the Settlement Service Collateral in accordance with Rule 9.3.11. To the extent that Settlement Service Collateral is held for other Sureties, the Surety shall control and hold such Settlement Service Collateral as the agent of such other Sureties, subject only to their instructions and not to the instructions of the Debtor, and may act upon such instructions without the consent of the Debtor.</p>	<p>5.6.8 Holding of Settlement Service Collateral</p> <p>If a Debtor is a Member of a Category Credit Ring, the Debtor's Settlement Service Collateral, which is subject to the Surety Security Interest granted by the Participant as a Debtor in accordance with Rule 5.6.7, may also be subject to the Category Credit Ring Security Interests granted by the Participant as a Member. All Settlement Service Collateral in the control and possession of a Surety is held by the Surety for CDS and for all Sureties establishing Lines of Credit for the Debtor, to secure payment in the priority determined by Rule 5.11.4 of the obligations of the Debtor as a Defaulter, of the obligations of the Debtor as a Member of a Category Credit Ring and of all amounts owing by the Debtor to the Surety and other Sureties arising from the Lines of Credit established for that Debtor. If the Debtor is a Defaulter and is not a Receiver, and a demand for payment of the obligations of the Category Credit Ring has been made by CDS, then the Surety shall transfer the Settlement Service Collateral in accordance with the instructions of the Category Credit Ring Members other than the Defaulter. If the Debtor is a Defaulter and is a Receiver, and a demand for payment of the obligations of the Category Credit Ring has been made by CDS, then the Surety, after realizing upon such collateral in accordance with Rule 5.6.9, shall transfer the surplus of the Settlement Service Collateral in accordance with Rule 9.3.11. To the extent that Settlement Service Collateral is held for other Sureties, the Surety shall control and hold such Settlement Service Collateral as the agent of such other Sureties, subject only to their instructions and not to the instructions of the Debtor, and may act upon such instructions without the consent of the Debtor.</p>
<p>5.10.7 Calculation of Formula Amount for RCP Receiver</p> <p>The Formula Amount of a <u>CAD</u> RCP Receiver shall be the result obtained by multiplying its own Contribution (to the Canadian dollar Collateral Pool or the US dollar Collateral Pool, as the case may be) by the <u>CAD</u> RCP leverage pool factor for that <u>the CAD</u> Collateral Pool. The <u>CAD</u> RCP leverage pool factor for each <u>the Canadian dollar</u> Collateral Pool is the amount obtained by dividing the aggregate of all Contributions to that <u>the Canadian dollar</u> Collateral Pool by the single largest</p>	<p>5.10.7 Calculation of Formula Amount for RCP Receiver</p> <p>The Formula Amount of a CAD RCP Receiver shall be the result obtained by multiplying its own Contribution (to the Canadian dollar Collateral Pool) by the CAD RCP pool factor for the CAD Collateral Pool. The CAD RCP pool factor for the Canadian dollar Collateral Pool is the amount obtained by dividing the aggregate of all Contributions to the Canadian dollar Collateral Pool by the single largest Contribution to that Collateral Pool. The Formula Amount of a USD RCP Receiver shall be an</p>

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<p>Contribution to that Collateral Pool. <u>The Formula Amount of a USD RCP Receiver shall be an amount elected by the member in accordance with the Procedures.</u> The Procedures establish the times at which the leverage pool factor shall be calculated. If a Participant becomes a Member of the Collateral Pool at a time other than the date on which such calculation is made, the leverage pool factor applicable to the new Member shall be the same as the leverage pool factor applied to then existing Members, without taking into effect the Contribution made by the new Member to the Collateral Pool. If a Participant ceases to be a Member of the Collateral Pool at a time other than the date on which such calculation is made, the leverage pool factor applicable to the remaining Members shall be re-calculated immediately, taking into effect the Contribution withdrawn by the former Member.</p>	<p>amount elected by the member in accordance with the Procedures. The Procedures establish the times at which the pool factor shall be calculated. If a Participant becomes a Member of the Collateral Pool at a time other than the date on which such calculation is made, the pool factor applicable to the new Member shall be the same as the pool factor applied to then existing Members, without taking into effect the Contribution made by the new Member to the Collateral Pool. If a Participant ceases to be a Member of the Collateral Pool at a time other than the date on which such calculation is made, the pool factor applicable to the remaining Members shall be re-calculated immediately, taking into effect the Contribution withdrawn by the former Member.</p>
<p>5.10.14 Voluntary Adjustment of RCP Receiver's System-Operating Cap</p> <p>An RCP Receiver may request CDS to decrease its System Operating Cap. At the time described in the Procedures, CDS shall decrease the System Operating Cap in accordance with the request. An RCP Receiver may request CDS to temporarily increase its System Operating Cap, up to a maximum amount prescribed in the Procedures, provided the RCP Receiver makes a temporary additional Collateral Pool Contribution in an amount equal to the amount of the requested increase in its System Operating Cap. CDS shall increase the System Operating Cap in accordance with the request when the additional Contribution has been made. The temporary additional Contribution shall not affect the calculation of the leverage pool factor or of the System Operating Cap of any Participant other than the Receiver requesting the increase. Upon the completion of Payment Exchange for that Business Day, the temporary additional Contribution shall be released to the Receiver as excess Collateral Pool Contributions in accordance with and subject to the conditions of Rule 5.12.9. CDS shall return the System Operating Cap of the Receiver to its normal level before the start of business on the next Business Day.</p>	<p>5.10.14 Voluntary Adjustment of RCP Receiver's System-Operating Cap</p> <p>An RCP Receiver may request CDS to decrease its System Operating Cap. At the time described in the Procedures, CDS shall decrease the System Operating Cap in accordance with the request. An RCP Receiver may request CDS to temporarily increase its System Operating Cap, up to a maximum amount prescribed in the Procedures, provided the RCP Receiver makes a temporary additional Collateral Pool Contribution in an amount equal to the amount of the requested increase in its System Operating Cap. CDS shall increase the System Operating Cap in accordance with the request when the additional Contribution has been made. The temporary additional Contribution shall not affect the calculation of the pool factor or of the System Operating Cap of any Participant other than the Receiver requesting the increase. Upon the completion of Payment Exchange for that Business Day, the temporary additional Contribution shall be released to the Receiver as excess Collateral Pool Contributions in accordance with and subject to the conditions of Rule 5.12.9. CDS shall return the System Operating Cap of the Receiver to its normal level before the start of business on the next Business Day.</p>
<p>5.12.2 Aggregate Collateral Pool Contributions</p>	<p>5.12.2 Aggregate Collateral Pool Contributions</p>

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<p>The minimum amount of each Collateral Pool shall be:</p> <ul style="list-style-type: none"> (a) with respect to the Extenders Collateral Pool, the amount determined in accordance with a formula or tables prepared from time to time by the Extenders Senior Risk Management Committee and incorporated by CDS into the Procedures and User Guides; (b) with respect to the Federated Participants Collateral Pool, the amount determined in accordance with a formula or tables prepared from time to time by the Active Federated Participant and incorporated by CDS into the Procedures and User Guides; and (c) with respect to the Settlement Agents Collateral Pool, the amount determined in accordance with a formula or tables set out from time to time in a written direction given to CDS pursuant to the Settlement Agents Credit Ring Agreement and incorporated by CDS into the Procedures and User Guides; and (d) <u>with respect to the CAD RCP Receivers Collateral Pool, the amount determined in accordance with the formula determined by CDS and set out in the Procedures and User Guides; and</u> (e) with respect to each of the <u>USD</u> RCP Receivers Collateral Pools, the an elected amount determined in accordance with the formula determined by CDS and <u>as</u> set out in the Procedures and User Guides. <p>Increased Collateral Pool Contributions required pursuant to this Rule 5.12, shall be in addition to the minimum amount of the Collateral Pool.</p>	<p>The minimum amount of each Collateral Pool shall be:</p> <ul style="list-style-type: none"> (a) with respect to the Extenders Collateral Pool, the amount determined in accordance with a formula or tables prepared from time to time by the Extenders Senior Risk Management Committee and incorporated by CDS into the Procedures and User Guides; (b) with respect to the Federated Participants Collateral Pool, the amount determined in accordance with a formula or tables prepared from time to time by the Active Federated Participant and incorporated by CDS into the Procedures and User Guides; and (c) with respect to the Settlement Agents Collateral Pool, the amount determined in accordance with a formula or tables set out from time to time in a written direction given to CDS pursuant to the Settlement Agents Credit Ring Agreement and incorporated by CDS into the Procedures and User Guides; and (d) with respect to the CAD RCP Receivers Collateral Pool, the amount determined in accordance with the formula determined by CDS and set out in the Procedures and User Guides; and (e) with respect to the USD RCP Receivers Collateral Pool, an elected amount as set out in the Procedures and User Guides. <p>Increased Collateral Pool Contributions required pursuant to this Rule 5.12, shall be in addition to the minimum amount of the Collateral Pool.</p>
<p>5.12.7 Increased Collateral Pool Contribution by RCP Receiver</p> <ul style="list-style-type: none"> (a) CDS Request <p>Forthwith at the request of CDS, an RCP Receiver shall provide additional Contributions to the Canadian dollar</p>	<p>5.12.7 Increased Collateral Pool Contribution by RCP Receiver</p> <ul style="list-style-type: none"> (a) CDS Request <p>Forthwith at the request of CDS, an RCP Receiver shall provide additional Contributions to the Canadian dollar</p>

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<p>Collateral Pool or to the US dollar Collateral Pool, which Contributions shall be in addition to its Contribution to such Collateral Pool calculated in accordance with Rule 5.12.3. The amount of such additional Contributions shall be the amount that CDS in its absolute discretion determines to be prudent to ensure the due discharge of the Participant's obligations to CDS that are secured by its RCP Collateral Pool Contributions (taking into consideration the financial stability and regulatory status of the Participant, the amount of its obligations to CDS and any other factor that CDS considers relevant).</p> <p>(b) Special Margin Collateral</p> <p>If an early warning event has been designated by the Investment Dealers Association of Canada in relation to a Member of the Credit Ring for RCP Receivers making Canadian dollar Settlements, then the Member may not be permitted to temporarily increase its System-Operating Cap and the required amount of the Collateral Pool Contribution to be made by that Member shall be increased by a special margin collateral Contribution calculated accordingly:</p> <p>(i) if the designation is early warning level 1, an amount equal to its current Collateral Pool Contribution (unless the Member opts to reduce its System-Operating Cap in which the amount shall equal the value of its reduced System-Operating Cap divided by the leverage ratio applicable to the Credit Ring for RCP Receivers making Canadian dollar Settlements), or</p> <p>(ii) if the designation is early warning level 2, an amount equal to the difference between its current Collateral Pool Contribution and its RCP Receiver's System-Operating Cap.</p> <p>Information concerning a Member's early warning status and the requirement to make a special margin collateral Contribution is confidential and shall not be disclosed to the other Members.</p>	<p>Collateral Pool or to the US dollar Collateral Pool, which Contributions shall be in addition to its Contribution to such Collateral Pool calculated in accordance with Rule 5.12.3. The amount of such additional Contributions shall be the amount that CDS in its absolute discretion determines to be prudent to ensure the due discharge of the Participant's obligations to CDS that are secured by its RCP Collateral Pool Contributions (taking into consideration the financial stability and regulatory status of the Participant, the amount of its obligations to CDS and any other factor that CDS considers relevant).</p> <p>(b) Special Margin Collateral</p> <p>If an early warning event has been designated by the Investment Dealers Association of Canada in relation to a Member of the Credit Ring for RCP Receivers making Canadian dollar Settlements, then the Member may not be permitted to temporarily increase its System-Operating Cap and the required amount of the Collateral Pool Contribution to be made by that Member shall be increased by a special margin collateral Contribution calculated accordingly:</p> <p>(i) if the designation is early warning level 1, an amount equal to its current Collateral Pool Contribution (unless the Member opts to reduce its System-Operating Cap in which the amount shall equal the value of its reduced System-Operating Cap divided by the leverage ratio applicable to the Credit Ring for RCP Receivers making Canadian dollar Settlements), or</p> <p>(ii) if the designation is early warning level 2, an amount equal to the difference between its current Collateral Pool Contribution and its RCP Receiver's System-Operating Cap.</p> <p>Information concerning a Member's early warning status and the requirement to make a special margin collateral Contribution is confidential and shall not be disclosed to the other Members.</p>

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<p>(c) Effect of Increased Contributions</p> <p>The additional Contributions or special margin collateral Contributions made by the RCP Receiver pursuant to this Rule 5.12.7 shall not affect the calculation of the leverage pool factor or of the System Operating Cap of (i) the RCP Receiver that made the additional Contributions or special margin collateral Contributions or (ii) any other RCP Receiver.</p> <p>(d) Release of Addition Contributions</p> <p>At the request of the RCP Receiver that made the additional Contribution pursuant to paragraph (a), and provided that an early warning event has not been designated in relation to the RCP Receiver, CDS shall release any additional Contribution if CDS determines in its discretion that such additional Contribution is not required to ensure the due discharge of the Participant's obligations to CDS. At the request of the RCP Receiver that made the special margin collateral Contribution pursuant to paragraph (b), CDS shall release such special margin collateral Contribution provided there is no longer an early warning event designated in relation to the RCP Receiver.</p>	<p>(c) Effect of Increased Contributions</p> <p>The additional Contributions or special margin collateral Contributions made by the RCP Receiver pursuant to this Rule 5.12.7 shall not affect the calculation of the pool factor or of the System Operating Cap of (i) the RCP Receiver that made the additional Contributions or special margin collateral Contributions or (ii) any other RCP Receiver.</p> <p>(d) Release of Addition Contributions</p> <p>At the request of the RCP Receiver that made the additional Contribution pursuant to paragraph (a), and provided that an early warning event has not been designated in relation to the RCP Receiver, CDS shall release any additional Contribution if CDS determines in its discretion that such additional Contribution is not required to ensure the due discharge of the Participant's obligations to CDS. At the request of the RCP Receiver that made the special margin collateral Contribution pursuant to paragraph (b), CDS shall release such special margin collateral Contribution provided there is no longer an early warning event designated in relation to the RCP Receiver.</p>
<p>9.3. COLLATERAL</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</p>	<p>9.3. COLLATERAL</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</p>

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<p>Collateral and CCP Collateral shall be realized by CDS and the net proceeds applied in accordance with Rule 9.3.13.</p> <p>(c) Settlement Service Collateral\</p> <p>If the suspended Participant is not a Receiver, its Settlement Service Collateral is transferred to the Other Members of its Category Credit Ring who are required to make payment to CDS, or, if there are no such Other Members, then to its Sureties. The transfer is made either upon receiving payment from the Sureties and Survivors or in order to enable the Sureties and Other Members to make such payment. If the suspended Participant is a Receiver (whether an RCP Receiver or a Non-Contributing Receiver), its Settlement Service Collateral is transferred to its Sureties and CDS who are required to make payment to CDS. <u>in accordance with Rule 5.6.7.</u> CDS shall transfer Settlement Service Collateral without any instructions from or consent by the suspended Participant. If there is no such Surety, then CDS will provide for immediate payment of the amounts owing by the suspended Participant by means of an advance to CDS and may use the Settlement Service Collateral of the suspended Participant to secure such advance.</p> <p>(d) Fund Contributions</p> <p>With respect to any obligation of the suspended Participant that is guaranteed by a Fund Credit Ring, CDS will provide for immediate payment of the amount owing by means of an advance to CDS and may use the Contribution of the suspended Participant to that Fund, the CCP Collateral of the suspended Participant, and, if required, the Contributions of the Other Members of the Fund Credit Ring to secure such advance. The suspended Participant's Fund Contributions shall be realized by CDS and the net proceeds applied in accordance with Rule 9.3.12.</p> <p>(e) Collateral Pool Contributions</p> <p>If the suspended Participant is not a Receiver, its Collateral Pool Contributions</p>	<p>realized by CDS and the net proceeds applied in accordance with Rule 9.3.13.</p> <p>(c) Settlement Service Collateral\</p> <p>If the suspended Participant is not a Receiver, its Settlement Service Collateral is transferred to the Other Members of its Category Credit Ring who are required to make payment to CDS, or, if there are no such Other Members, then to its Sureties. The transfer is made either upon receiving payment from the Sureties and Survivors or in order to enable the Sureties and Other Members to make such payment. If the suspended Participant is a Receiver (whether an RCP Receiver or a Non-Contributing Receiver), its Settlement Service Collateral is transferred to its Sureties and CDS in accordance with Rule 5.6.7. CDS shall transfer Settlement Service Collateral without any instructions from or consent by the suspended Participant. If there is no such Surety, then CDS will provide for immediate payment of the amounts owing by the suspended Participant by means of an advance to CDS and may use the Settlement Service Collateral of the suspended Participant to secure such advance.</p> <p>(d) Fund Contributions</p> <p>With respect to any obligation of the suspended Participant that is guaranteed by a Fund Credit Ring, CDS will provide for immediate payment of the amount owing by means of an advance to CDS and may use the Contribution of the suspended Participant to that Fund, the CCP Collateral of the suspended Participant, and, if required, the Contributions of the Other Members of the Fund Credit Ring to secure such advance. The suspended Participant's Fund Contributions shall be realized by CDS and the net proceeds applied in accordance with Rule 9.3.12.</p> <p>(e) Collateral Pool Contributions</p> <p>If the suspended Participant is not a Receiver, its Collateral Pool Contributions are transferred to the Other Members of its Category Credit Ring who are required to</p>

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<p>are transferred to the Other Members of its Category Credit Ring who are required to make payment to CDS. The transfer is made either upon receiving payment from the Survivors or in order to enable the Other Members to make such payment. CDS shall transfer Collateral Pool Contributions without any instructions from or consent by the suspended Participant. If the suspended Participant is a Receiver, CDS will provide for immediate payment of the amount owing that is guaranteed by its Category Credit Ring by means of an advance to CDS and may use to secure such advance the Contribution of the suspended Participant to that Collateral Pool. <u>Settlement Service Collateral allocated to CDS in accordance with Rule 5.6.7</u> and, if required, the Contributions of the Other Members of the Category Credit Ring to that Collateral Pool.</p>	<p>make payment to CDS. The transfer is made either upon receiving payment from the Survivors or in order to enable the Other Members to make such payment. CDS shall transfer Collateral Pool Contributions without any instructions from or consent by the suspended Participant. If the suspended Participant is a Receiver, CDS will provide for immediate payment of the amount owing that is guaranteed by its Category Credit Ring by means of an advance to CDS and may use to secure such advance the Contribution of the suspended Participant to that Collateral Pool, Settlement Service Collateral allocated to CDS in accordance with Rule 5.6.7 and, if required, the Contributions of the Other Members of the Category Credit Ring to that Collateral Pool.</p>
<p>9.3.11 Application of Settlement Service Collateral</p> <p>(a) Priorities</p> <p>Category Credit Ring Collateral (which secures the obligations of a Participant as a Member of a Category Credit Ring) includes Settlement Service Collateral (which also secures the obligations of a Participant as the Debtor under a Line of Credit established by a Surety). A Participant who is a Receiver is a Member of two Category Credit Rings. The relative priority of these interests is set out in Rule 5.6.7 and Rule 5.11.4. This Rule 9.3.11 describes the order in which the net proceeds of realization of the Collateral of a suspended Participant are applied, in accordance with such priorities. A Surety may apply the net proceeds of realization of <u>the portion of</u> a suspended Participant's Settlement Service Collateral <u>allocated in accordance with Rule 5.6.7</u> only to discharge the obligation of the suspended Participant to reimburse the Surety for amounts paid by the Surety to CDS in respect of its Line of Credit obligation to CDS, and not to discharge any other obligation incurred by the suspended Participant to the Surety.</p>	<p>9.3.11 Application of Settlement Service Collateral</p> <p>(a) Priorities</p> <p>Category Credit Ring Collateral (which secures the obligations of a Participant as a Member of a Category Credit Ring) includes Settlement Service Collateral (which also secures the obligations of a Participant as the Debtor under a Line of Credit established by a Surety). A Participant who is a Receiver is a Member of two Category Credit Rings. The relative priority of these interests is set out in Rule 5.6.7 and Rule 5.11.4. This Rule 9.3.11 describes the order in which the net proceeds of realization of the Collateral of a suspended Participant are applied, in accordance with such priorities. A Surety may apply the net proceeds of realization of the portion of a suspended Participant's Settlement Service Collateral allocated in accordance with Rule 5.6.7 only to discharge the obligation of the suspended Participant to reimburse the Surety for amounts paid by the Surety to CDS in respect of its Line of Credit obligation to CDS, and not to discharge any other obligation incurred by the suspended Participant to the Surety.</p>

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<p>(b) Non-Receiver</p> <p>If the suspended Participant is not a Receiver, then its Settlement Service Collateral shall be realized and the net proceeds thereof applied as set out below.</p> <p>(i) The Survivors shall realize upon its Collateral Pool Contributions before realizing upon its Settlement Service Collateral.</p> <p>(ii) If the net proceeds realized from its Category Credit Ring Collateral exceed the total amount paid by all Survivors to CDS, the excess attributable to the Settlement Service Collateral shall be transferred to the Sureties (if any) of the suspended Participant and the Sureties shall apply the amount paid to them pursuant to Rule 5.6.</p> <p>(iii) Any excess remaining shall be transferred to CDS to be applied pursuant to Rule 9.3.13.</p> <p>(c) Receiver</p> <p>If the suspended Participant is a Receiver, then its Settlement Service Collateral shall be <u>allocated to a Surety and CDS (on behalf of the CAD RCP CCR) in accordance with Rule 5.6.7. The Settlement Service Collateral thereby allocated shall be realized and the</u> realized and the net proceeds thereof applied as set out below.</p> <p>(i) The Sureties who paid an amount to CDS in respect of Lines of Credit established for it shall realize upon its <u>their portion of the</u> Settlement Service Collateral.</p> <p>(ii) If the net proceeds realized by the Sureties from the <u>their portion of the</u> Settlement Service Collateral exceed the total amount paid by the Sureties to CDS in respect of Lines of Credit established by the Sureties for it, and if the suspended Participant is a Member of the Credit Ring for RCP Receivers making Canadian dollar Settlements, then the excess shall be, along with <u>CDS's excess (as per iii below)</u> transferred shall be transferred to the Survivors of that Credit Ring pro rata in</p>	<p>(b) Non-Receiver</p> <p>If the suspended Participant is not a Receiver, then its Settlement Service Collateral shall be realized and the net proceeds thereof applied as set out below.</p> <p>(i) The Survivors shall realize upon its Collateral Pool Contributions before realizing upon its Settlement Service Collateral.</p> <p>(ii) If the net proceeds realized from its Category Credit Ring Collateral exceed the total amount paid by all Survivors to CDS, the excess attributable to the Settlement Service Collateral shall be transferred to the Sureties (if any) of the suspended Participant and the Sureties shall apply the amount paid to them pursuant to Rule 5.6.</p> <p>(iii) Any excess remaining shall be transferred to CDS to be applied pursuant to Rule 9.3.13.</p> <p>(c) Receiver</p> <p>If the suspended Participant is a Receiver, then its Settlement Service Collateral shall be allocated to a Surety and CDS (on behalf of the CAD RCP CCR) in accordance with Rule 5.6.7. The Settlement Service Collateral thereby allocated shall be realized and the net proceeds thereof applied as set out below.</p> <p>(i) The Sureties who paid an amount to CDS in respect of Lines of Credit established for it shall realize upon their portion of the Settlement Service Collateral.</p> <p>(ii) If the net proceeds realized by the Sureties from their portion of the Settlement Service Collateral exceed the total amount paid by the Sureties to CDS in respect of Lines of Credit established by the Sureties for it, and if the suspended Participant is a Member of the Credit Ring for RCP Receivers making Canadian dollar Settlements, then the excess, along with CDS's excess (as per iii below) shall be transferred to the Survivors of that Credit Ring pro rata in proportion to the total payment made to CDS by each</p>

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<p>proportion to the total payment made to CDS by each Survivor <u>to the extent required to cover their respective losses.</u></p> <p>(iii) <u>CDS (on behalf of the CAD RCP CCR) shall realize upon its portion of the Settlement Service Collateral.</u></p> <p><u>If the net proceeds realized by CDS (on behalf of the CAD Receivers of Credit CCR) from its portion of the Settlement Service Collateral exceed the total amount paid by the Surviving members of the CAD RCP to CDS in respect of the suspended Participant's use of its CAD RCP SOC and if the suspended Participant is a Member of the Credit Ring for RCP Receivers making Canadian dollar Settlements, then the excess shall be applied along with the Sureties excess (as per (ii) above) to the Survivors of that Credit Ring pro rata in proportion to the total payment made to CDS by each Survivor to the extent required to cover their respective losses.</u></p> <p>(iv) <u>If the following conditions are satisfied:</u></p> <p>(1) the suspended Participant is a Member of the Credit Ring for RCP Receivers making US dollar Settlements; and</p> <p>(2) either the suspended Participant is not a Member of the Credit Ring for RCP Receivers making Canadian dollar Settlements, or there are any proceeds of realization remaining after the application of the net proceeds pursuant to subparagraphs (i), <u>(ii), and (iii);</u></p> <p>then the excess shall be transferred to the Survivors of the Credit Ring for RCP Receivers making US dollar Settlements pro rata in proportion to the total payment made to CDS by each Survivor.</p> <p>(v) If there are any proceeds of realization remaining after the application of the net proceeds pursuant to</p>	<p>Survivor to the extent required to cover their respective losses.</p> <p>(iii) CDS (on behalf of the CAD RCP CCR) shall realize upon its portion of the Settlement Service Collateral.</p> <p>If the net proceeds realized by CDS (on behalf of the CAD Receivers of Credit CCR) from its portion of the Settlement Service Collateral exceed the total amount paid by the Surviving members of the CAD RCP to CDS in respect of the suspended Participant's use of its CAD RCP SOC and if the suspended Participant is a Member of the Credit Ring for RCP Receivers making Canadian dollar Settlements, then the excess shall be applied along with the Sureties excess (as per (ii) above) to the Survivors of that Credit Ring pro rata in proportion to the total payment made to CDS by each Survivor to the extent required to cover their respective losses.</p> <p>(iv) If the following conditions are satisfied:</p> <p>(1) the suspended Participant is a Member of the Credit Ring for RCP Receivers making US dollar Settlements; and</p> <p>(2) either the suspended Participant is not a Member of the Credit Ring for RCP Receivers making Canadian dollar Settlements, or there are any proceeds of realization remaining after the application of the net proceeds pursuant to subparagraphs (i), (ii), and (iii);</p> <p>then the excess shall be transferred to the Survivors of the Credit Ring for RCP Receivers making US dollar Settlements pro rata in proportion to the total payment made to CDS by each Survivor.</p> <p>(v) If there are any proceeds of realization remaining after the application of the net proceeds pursuant to subparagraphs (i), (ii) (iii), and (iv) or if the suspended Participant is not a Member of any RCP Receivers Credit</p>

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<p>subparagraphs (i), (ii), and (iii), and (iv) or if the suspended Participant is not a Member of any RCP Receivers Credit Ring, then the excess shall be paid to the Survivors of each Non-Contributing Receivers Credit Ring of which it is a Member (pro rata in proportion to the total payment made to CDS by each Survivor).</p> <p>(vi) Any excess remaining shall be transferred to CDS to be applied pursuant to Rule 9.3.13.</p>	<p>Ring, then the excess shall be paid to the Survivors of each Non-Contributing Receivers Credit Ring of which it is a Member (pro rata in proportion to the total payment made to CDS by each Survivor).</p> <p>(vi) Any excess remaining shall be transferred to CDS to be applied pursuant to Rule 9.3.13.</p>