

**NOTICE AND REQUEST FOR COMMENT –
MATERIAL AMENDMENTS TO CDS EXTERNAL PROCEDURES**

CDS Delivery Services Participant Procedures
<https://www.cds.ca/resource/en/58>

A. DESCRIPTION OF THE PROPOSED CDS EXTERNAL PROCEDURE AMENDMENTS FOR CDS POST TRADE MODERNIZATION (PTM)

The new TMX-CDS Post Trade system is built on the exceptional reliability and security that market participants have come to expect from TMX-CDS, while driving greater efficiency and responsiveness. Data will be made available through more flexible, on-line and improved reporting tools. Changes will be easier, faster and less expensive to implement which will allow TMX-CDS to keep pace with the evolving needs of the industry. The new system and Graphical User Interface (“GUI”) will result in a change to some procedures and processes.

The proposed external procedure amendments will streamline the current procedures so that there are two documents in future state for each key function resulting in a clear distinction between procedures and user guide, as described below. This will align CDS with the approach that other Central Securities Depositories take with their procedures and user guides.

(Part 1) The procedures that reflect the rights and obligations associated with operating in the new CDSX system.

The “material rule” updates to the rights and obligations refer to the substantive changes resulting from the implementation of CDS Post Trade Modernization. All proposed amendments are provided in Appendix “A” to this Notice.

The rights and obligations procedure guides will be updated to reflect the changes associated with the CDS Post Trade Modernization initiative. It was agreed that samples be provided to the CDS Strategic Development Review Committee (SDRC) for its review prior to the public comment period. This set of procedures will replace those currently hosted on the CDS website.

(Part 2) The User Guides that reflect the 'how' and will support training in the new system.

The “technical rule” deletions of the 'how' will include: (i) user instructions regarding how to perform a function; (ii) screen prints; and (3) report references. This material will be amended to reflect the new future state and will form the basis of the user guides developed for training new users on the system functionality.

User guides will be delivered by the vendor in Q4 2024 and will also be reviewed with the SDRC to ensure members have a full understanding of how the two documents are meant to complement each other. User guides will be made available to industry participants during end-user training so they can become familiar with their content. User guides will be hosted in the new system and made available to CDS participants when they sign in and authenticate.

B. NATURE AND PURPOSE OF THE PROPOSED CDS PROCEDURE AMENDMENTS

There have been no material updates to the CDS Delivery Services Participant procedures. All the existing CDS's delivery services including:

- the types of delivery services;
- the requirements for preparing and sending shipments through delivery services including the information to be recorded by the participant concerning the contents of each shipment, the use of sealed envelopes and the use of declarations of value;
- the process for receiving shipments; and
- the restrictions imposed on the content of shipments,

will be maintained with no changes in the future state.

C. IMPACT OF THE PROPOSED CDS PROCEDURE AMENDMENTS UNDER PART 1

The CDS Post Trade Modernization will have a minimal effect on the business functions performed today. Core business processes will largely remain like for like. PTM will, however, introduce a new web based interface, a new tool to perform the functions in. Screens will be richer in detail and easier to navigate. Data will be queried directly from the screen and exported for review and action. This will be covered in more detail in the user guides and during Industry end user training.

C.1 Competition & Conflict of Interest Analysis

The proposed external procedure amendments under Part 1 will apply to all CDS Participants. As concerns fair access and conflict of interest issues, no CDS Participants will be disadvantaged or otherwise prejudiced by the introduction of the proposed changes.

C.2 Risks and Compliance Costs

While CDS acknowledges that the PTM Initiative will impact Participants and stakeholders, the Proposed Material Amendments are not expected to result in any direct compliance costs for CDS, Participants, or other market participants.

C.3 Comparison to International Standards

Observance of Principles for Financial Market Infrastructures (PFMI) standards is a requirement under CDS's Recognition Order and Recognition Decisions as well as under National Instrument 24-102 (Clearing Agency Requirements) and related Companion Policy 24-102CP. The Proposed Material Amendments have been evaluated against, and do not affect, CDS's observance of, and compliance with, these standards.

D. DESCRIPTION OF THE PROCEDURE DRAFTING PROCESS

D.1 Development Context

Procedure documents were initially reviewed and the user guide/how to references were removed. These included screen captures and reference to how to process transactions.

Post Trade Modernization Changes were identified during the Business Requirements phase of the project. Changes were collected, documented and an impact assessment completed by subject matter experts. Changes were organized in documents based on a functional grouping with a description of current state vs future state provided. Each change was linked to a procedure reference, if applicable. These changes and impacts were further assessed during internal review sessions conducted with various representatives from CDS business Operations, Legal, Risk Management, Audit and Senior Executive representatives. During this review process, changes were categorized as low, medium or high. A legend can be found within the attached spreadsheet.

Documents listing the changes were released to the industry and industry working group sessions were held to discuss. Question/Answer sessions were held with no material issues raised.

Current procedures were then updated to reflect future state.

D.2 Procedure Drafting Process

Steps to updating the procedure documents:

Step 1 - Each procedure was reviewed and references to screens, reports and how a function is performed were removed. Note: These references would be covered in user guides.

Step 2 - The changes pertaining to PTM identified by the subject matter experts during the business requirements phase were captured and detailed in separate documents - these changes were then reflected in the relevant procedure document through a blackline update.

Step 3 - Procedure documents were reviewed, signed off and then formally updated through the technical design writing process.

Step 4 - Translation to French.

Note: To account for any new or modified changes coming out of user acceptance and/or industry testing, steps 2, 3 and 4 will be repeated in future updates of the procedures.

D.3 Issues Considered

In drafting the External Procedures, CDS's primary objective is to ensure that the document will accurately capture the changes to CDSX and related processes under PTM, which are expected to take effect in Q1 2025.

D.4 Consultation

The CDS Strategic Development Review Committee (SDRC) that represents the Participants that use CDS procedures was consulted in June 2020 regarding future state approach and voted to accept the separation of the current procedures into two documents:

(1) Procedure reflecting rights and obligations

(2) User ‘how to’ guides

CDS recognizes that updating all procedure guides, all at once, is a large undertaking and represents a one time requirement for PTM.

A general agreement was reached with the SDRC that samples of procedures, reflecting rights and obligations would be reviewed with the SDRC in advance of the public comment period. All participants will receive insight into the user guides as part of industry training. As agreed, on July 25, 2024, CDS provided the members of the SDRC with two samples of procedures, for the committee’s review. CDS did not receive any comments or indication of objection from the members of the SDRC.

In addition, all stakeholders have been provided with a list of Post Trade Modernization changes by function and given the ability to ask questions via industry working group sessions where all changes were reviewed line by line. No material issues were raised during this consultation process.

D.5 Alternatives Considered

The changes are brought about by the introduction of the new PTM systems and processes, hence it is necessary to update the External Procedures to reflect the changes in the new systems and processes.

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 (“AMF”) 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”. The amendments to CDS Participant External Procedures under Part 1 are expected to become effective on a date to be determined by CDS (such date expected to be in Q1 2025), and to fall subsequent to approval of the amendments by the Recognizing Regulators following public notice and comment and be contingent on completion of appropriate testing and applicable notice to CDS participants.

CDS has determined that the amendments to CDS Participant External Procedures under Part 1 will become effective upon receiving the necessary regulatory approvals.

E. TECHNOLOGICAL SYSTEMS CHANGES

The updates to the external procedures are triggered by proposed changes to CDSX and related processes as a result of PTM. The proposed changes under PTM will impact technological systems, and require changes to such systems for CDS, Participants, or other market participants. The expected impact and required changes are under continuous

discussion and review with the PTM Industry Engagement Working Group¹ to ensure CDS's, Participants', and other market participants' readiness when the new system goes live (expected to be in Q1 2025).

F. COMPARISON TO OTHER CLEARING AGENCIES

International best practice amongst central securities depositories and central counterparties is a transparent separation between an organization's rules and operating procedures, on the one hand, and system user guides, on the other. In conjunction with the system changes implemented by the PTM initiative, CDS analysis determined that updates to the existing range of "Procedure and User Guides" should also follow such best practice.

While CDS's scope of services - and thus the scope of available documentation - differs from other CSDs and CCPs around the world, it remains useful to review CDS's peers. CDS's closest international comparator, for example, is the Depository Trust & Clearing Corporation (DTCC), and its operating subsidiaries, the National Securities Clearing Corporation (NSCC) and the Depository Trust Company (DTC) in the United States; each of these entities separates their respective (legally binding) rules, operating procedures, and user guides/manuals. Euroclear, a large European CSD/CCP, also bifurcates its purely legal/contractual documents from system user guides/manuals. International standards - the PFMI - require transparent disclosure of such rules and procedures, user guides and system manuals including, for example only, technical manuals, are generally not available publicly since the systems themselves are secure.

The proposed amendments to CDS Procedures are aligned with international best practices and are in compliance with international standards for disclosure of this type of information.

G. PUBLIC INTEREST ASSESSMENT

CDS has determined that the proposed amendments under Part 1 are not contrary to the public interest.

CDS completed an impact assessment phase with the industry from Jan-Jun 2020. Documents summarizing changes were provided, time was given to assess and then industry working group meetings were held to discuss and answer questions. This process resulted in no material findings and a general agreement that the changes looked reasonable. CDS continues to support Participant's assessment through open forum industry working groups, when required and ongoing Q&A sessions.

¹ The Industry Engagement Working Group includes representatives of Participants and their service providers. All Participants, service providers and Recognizing Regulators are invited to all the working group meetings.

H. COMMENTS

Comments on the proposed amendments under Part 1 should be in writing and submitted within 60 calendar days following the date of publication of this notice:

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

Appendix “A”