

inMotion

News from the CDS group of companies

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CDS Clearing and Depository Services Inc.

Courses look in-depth at post-trade activity



CDS has a long tradition of educating international delegations about the workings of Canada's depository system, but last October was the first time it offered courses directly to market participants. Now, with strong feedback from the pilot courses in 'Clearing and Settlement' and 'Depository Processing', CDS is offering a broader selection of five one-day courses beginning in April 2010.

"The courses will focus on different aspects of post-trade activity," said Fran Daly, managing director, Customer Service. "Our goal is to give course participants a more complete understanding of how the depository, clearing and settlement functions operate. It's extremely important to build a consistent understanding of post-trade activity in Canada to support the efficient operation of our capital

markets. CDS is in a unique position of being able to add value in this area."

According to a CDS survey sent to participants in August 2008, the types of courses that are currently available to educate staff at investment firms, transfer agents, services bureaus and even regulators in the areas of corporate actions, deposits and withdrawals and risk management are not meeting their needs. Respondents indicated that their biggest knowledge gap is in the area of entitlements and corporate actions (80 per cent of respondents), followed by trading, clearing and settlement (79 per cent). Knowledge of post-trade activity varies based on years of experience, but interestingly, even some staff with ten years or more of experience suggested their understanding of risk management or entitlements could use a refresher.

"We chose face-to-face learning rather than webinars because in our experience, group interaction with plenty of discussion works best," said Annie Mah, manager, Customer Service in Vancouver. "We're also using CDS staff to do the training because in the area of risk management, for example, the only model we'll look at is the CDS risk model, which is completely unique compared to other global depositories."

Some courses have pre-requisites. For example, the 'Corporate Actions Processing in Canada' course requires participants to first complete the 'Depository Processing in Canada' and 'Clearing and Settlement Processing in Canada' courses. To register – and to view a complete list of courses, descriptions and pre-requisites – visit www.cds.ca/education.

Each one-day course costs \$350 for CDS Clearing and Depository Services participants and \$500 for non-participants. Courses run from 9 a.m. to 4:30 p.m. and include breakfast, lunch and refreshments. Class size is limited to 20 people. ■

Available courses

The courses, which will be offered twice a year in Toronto, Montreal and Vancouver, include:

- Depository Processing in Canada
- Clearing and Settlement Processing in Canada
- International Securities Transactions Processing in Canada
- Corporate Actions Processing in Canada
- Financial Risk Management in CDS's Settlement Services.

Dematerialization update

New securities eligibility fee structure encourages paperless certificates

To improve the efficiency and cost effectiveness of the Canadian capital markets, CDS has been working on different levels to advance securities dematerialization. Latest efforts involve a new fee structure for certain securities eligibility requests. Effective August 3, 2010, uncertificated issues will not attract a fee, while issues that are represented by definitive certificates or global certificates, in the case of book-entry-only issues, will attract a fee.

"These fees reflect the costs and risks to CDS Clearing of holding certificates and are structured to encourage dematerialization of securities issued in the Canadian capital markets," said Mike Polak, director, Operations Support.

The new fee structure is as follows:

Definitive certificates held by CDS	\$1000
BEO global certificates held by CDS	\$500
Uncertificated (no certificates held by CDS)	\$0

Find out more about CDS and dematerialization:
www.cds.ca/dematerialization.

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– Fran Daly, managing director, Customer Service

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The Canadian Depository for Securities Limited

What a difference forty years can make

In June 2010, CDS celebrates its fortieth year. Its history is as much a reflection of the stability of Canada's central depository as it is a testament to the vibrancy of the Canadian capital markets. In this first of a two-part series on CDS's history, inMotion will highlight some of the milestones that made CDS what it is today. A follow-up segment, to be published later this summer, will feature reminiscences from CDS Chairman, Charles R. Moses.

Imagine a country with two central depositories, no electronic means of handling post-trade clearing and settlement, and where brokers exchanged paper certificates to settle each trade. That was Canada's securities market forty years ago. In the face of a bustling economy, the federal government identified the need for a centralized depository service to deal more efficiently and cost-effectively with rising back office costs. In response to this need, on June 9, 1970 the Canadian Depository for Securities Limited (CDS Ltd.) was incorporated. Its goal was to leverage new technologies and automation to create a centralized depository service and an electronic clearing and settlement

system that would handle higher volumes and meet future needs. It wasn't until 1997 that CDS finally merged with the other depository, West Canada Depository Trust Company and the West Canada Clearing Corporation to create one central Canadian depository.

As a measure of how much things have changed during the past forty years, consider this: In the seventies, CDS provided clearing, depository and settlement services for approximately 6,000 exchange trades per day. In 2009, that volume had ballooned to an average of 960,000 exchange trades and 47,000 non-exchange trades per day. At year-end 2009, a total of 239.5 million exchange trades and 11.8 million non-exchange trades had been processed.

Where there was no central vault to speak of forty years ago, in 1981 the first book-entry equity issues were deposited and by the end of fiscal 2009, the total value of securities on deposit at CDS was \$3.3 trillion, representing 77,000 eligible issues, the vast majority of these held in book-entry-only form.

Reputation for excellence

- 1997** Canadian Information Productivity Award for CDS's entitlement processing system.
- 2003** Financial Times' The Banker magazine awarded Tata Consultancy Services (TCS) The Banker 2003 Technology Award for "Stock Exchange System of the Year" for its development of the CDSX system. The Banker technology awards, sponsored by the U.K.-based *The Banker* magazine and the Financial Times Group, were initiated to recognize achievement, success and innovation in technical applications and services for all areas in investment, wholesale banking and retail banking.
- 2006 – 2009** Thomas Murray AA depository risk rating, no depository in the world has a higher rating.

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CDS Innovations Inc.

CDS Innovations launches new strip bond reports

What began twenty-three years ago as an electronic service for stripping bonds designed to reduce risk and costs to the financial market has now been augmented, thanks to the launch of a monthly strip bond relationship report service.

In April, CDS Innovations introduced two new relationship reports, both with a goal of helping brokers do the analytical work required before a security is stripped into its component parts. “The two new strip bond relationship reports have no equivalent in the market today,” said Frank Baron, manager, Product Development and Sales.

These new reports will be especially helpful for brokers who want more complete information about each bond before it is stripped.

The Underlying Bond – Strip Component Relationship Report and the Strip Bond – Underlying Bond Relationship Report will be distributed monthly and sent to subscribers as a tab-delimited text file suitable for MS Excel.

According to Jonathan Bloch, CEO of Exchange Data International, “The new relationship reports provide exactly the kind of information that we need because they link the strips to the underlying securities. Exchange Data covers over 130 countries and enhancing our offering of Canadian fixed income instruments provides added value to our clients.”

Other monthly strip bond reports that are available to the public include CDS Clearing’s Underlying Statistics Report and the Summary Statistics Report, both of which are posted in PDF format on www.cds.ca under Securities depository, custodial, entitlement > Strip bond services. ■

Underlying Bond – Strip Component Relationship Report

The Underlying Bond – Strip Component Relationship Report provides a list by CUSIP of all underlying bonds that have been stripped by CDS Clearing, the amount of each underlying bond that has been stripped and a listing of the strip components associated with each underlying bond.

Strip Bond – Underlying Bond Relationship Report

The Strip Bond – Underlying Bond Relationship Report provides a complete list of all existing strip bond components registered at CDS Clearing. It also provides a cross reference to the associated underlying bond from which each component has been stripped.

To become a subscriber to the new strip bond relationship reports, contact Frank Baron at fbaron@cds.ca. CDS Clearing participants should contact their customer service representative for more information. ■

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The Canadian Depository for Securities Limited

What a difference forty years can make *continued*

Volume is just one side of CDS’s story; the provenance of many of those trades is another. Where would the Canadian economy be, for example, if securities couldn’t be traded cross-border?

Interest in eliminating the need to move physical securities across the Canada-U.S. border began in 1980, when CDS established a link with New York’s Depository Trust Company (DTC). This agreement laid the groundwork for additional reciprocal services including clearing and settlement with DTC’s affiliate, the National Securities Clearing Corporation (NSCC), and would ultimately streamline the withholding tax process for Canadian institutions. Importantly, the establishment of cross-border services between Canada and the U.S. also eliminated the need for many CDS participants to maintain a U.S. presence.

Today, the DTC Direct Link and New York Link (NYL) services provide participants with:

- Clearing, settlement and depository services
- Trades settled predominantly on a continuous net settlement (CNS) basis
- Book-based cross-border moves of securities
- Same-day funds settlement.



at the core of Canada’s capital markets

on, CDS settled an average of 1,300 daily money market transactions at year-end and processed over 100 maturities daily averaging \$7.5 billion in value.

The bring-on radically improved money market issuance in Canada by making nearly all money market instruments eligible for electronic settlement. The efficiency of electronic settlement allowed CDS to substantially reduce the fees for money market security settlement.

The largest and most advanced infrastructure initiative ever undertaken in Canada’s capital markets – CDSX® – was completed in 2003. Designed to make securities processing simpler, faster and more effective, CDSX is one of the

major drivers behind the ongoing competitiveness of Canada’s capital markets. A secure and reliable platform, it delivers a full range of products and services, including clearing and settling of eligible Canadian exchange-traded and over-the-counter equity, debt and money market transactions; broker-to-broker trade matching; a range of settlement options such as continuous net settlement (CNS) and batch net settlement (BNS); collateral management; and settlement in Canadian central bank funds via the Large Value Transfer System (LVTS) or

via Fedwire for U.S. currency.

Underpinning the CDSX platform is a stringent risk management program that in 2009 received a rating of AA (very low risk) from independent evaluator, Thomas Murray. With this top score, CDS Clearing is one of the top-rated central depositories in the world. The rating system is a weighted average of six different risk components comprising asset commitment risk, liquidity risk, counterparty risk, financial risk, operational risk and asset servicing risk. According to Simon Thomas, CEO and chief ratings officer of Thomas Murray, “CDS’s highly collateralized risk model proved resilient during the recent period of global market instability, the credit crunch, and price volatility.”

Clearly, much has changed in the way securities are traded, cleared and settled today, compared to forty years ago, but CDS’s drive to consistently improve the efficiency and effectiveness of the Canadian capital markets continues to be its *raison d’être*.

For his personal reflections on how the market has evolved, and how the securities industry itself has changed, stay tuned for an interview with Charles Moses, CDS chairman, in the next issue of inMotion. ■

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CDS

The Canadian Depository for Securities Limited is a valued partner to securities market participants, providing reliable, cost-effective depository, clearing, settlement, regulatory and information services. We deliver innovative, value-added solutions that help our stakeholders maintain a competitive capital market in Canada and build a strategic global advantage.

The Canadian Depository for Securities Limited is the holding company for four operating subsidiaries: CDS Clearing and Depository Services Inc., CDS Securities Management Solutions Inc., CDS INC., and CDS Innovations Inc. For more information go to www.cds/td-cds/tee.ca.

CDS Clearing and Depository Services Inc. is Canada’s national securities depository, clearing and settlement hub – supporting Canada’s equity, fixed income and money markets. For more information go to www.cds.ca.

■ CDS Securities Management Solutions Inc. (CDS Solutions) is a subsidiary of CDS Clearing and Depository Services Inc. CDS Solutions offers depository-related services to issuers and their agents to facilitate securities issuance and registrar and paying agent related activities. CDS Solutions is dedicated to promoting the use of uncertificated issues and electronic payment as an efficient and secure alternative to paper certificates and cheques. For more information go to www.cdssolutions.ca.

CDS INC. is focused on delivering improvements to the capital markets and the public through the services we provide on behalf of the CSA – the System for Electronic Document Analysis and Retrieval (SEDAR), the System for Electronic Disclosure by Insiders (SEDI) and the National Registration Database (NRD). For more information go to www.cdsinc.ca.

CDS Innovations Inc. is the premier source for information on Canadian securities and is ideally positioned to develop and provide new solutions that meet market demand for securities data and related services. For more information go to www.cdsinnovations.ca.

Comments

We welcome comments on CDS inMotion so that we can better meet your needs. Contact Janet Comeau @ 416.365.8427 or email jcomeau@cds.ca

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