

NY Link and DTC Link services – CDS background, analysis and issue status

New York Link DTC Direct Link

CDS

2009

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FAS Conference
Toronto
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Discussion points

- Background
- Risk-based margin
- Other risk factors
- Consultation process
- Potential ongoing risk
- Participant decision
- CDS decision
- Next steps

Background

- NY Link – 1985
 - Primarily CNS activity
- DTC Direct – 1995
 - Primarily TFT activity
- 45+ participants
- 80+ user accounts
- 35 million trades (9 months - 2009)

Risk-based margin

- RBM introduced a number of years ago
- CDS collects from Canadian participants
- CDS remits a small portion of the collateral to DTC
 - the rest is used to protect CDS
- Starting November 1, 2009 all RBM collateral will be delivered to DTC
 - CDS will no longer have access in the event of a default by a Canadian participant
 - 100% USD cash
- As a result CDS will be treated like all other DTC participants

Other risk factors

- NSCC settlements are not capped
- Unlimited exposure to CDS
- \$90 million line of credit available
 - This limit has been exceeded 131 times since January 2008
- CDS will require its own collateral to support the Canadian marketplace obligations

CDS consultation process

- June 2009
 - CDS board asked that the community be consulted on the options available
 - Stay in the service
 - Join DTC directly
- July/August 2009
 - Held industry meetings
 - Provided guidance on the various options
 - Provided collateral estimates
 - Coordinated DTC assistance
 - Attended industry working groups

Potential ongoing risk

- US obligations are not limited by a cap
- Obligations may exceed liquidity
- Participants may not receive payment at the end of the day (in the event of a default)

- Participants will be asked to explicitly acknowledge this risk
- New collateral pools will cover approximately 98 - 99%
- New soft cap
 - Participant to pre-fund if over this limit
 - Some form of penalty if over this limit

Participant decision

By September 30, 2009

- Indicate their interest in remaining in the service
- Acknowledge the ongoing risk
- Accept the increased collateral requirements

CDS decision

Recommend to the board

- To stay
 - It is economically viable
 - Risk is acceptable

OR

- To leave
 - Risk is too great
 - Too many participants leave
 - To be completed by May 2010
 - Price impact on other services

Next steps

- Participants to notify CDS of their decision by September 30, 2009
- CDS to notify participants of its decision by early October
- Introduction of new collateral pool on November 1, 2009
- Introduction of new 'soft cap' or exit the service by May 2010

QUESTIONS?

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