



CDS Update

2014 Financial Administrators Section Conference

September 12, 2014



Toronto Stock Exchange | TSX Venture Exchange | TMX Select | Alpha | Montreal Exchange | BOX | NGX | Shorcan
The Canadian Depository for Securities Limited | Canadian Derivatives Clearing Corporation
TMX Datalinx | TMX Atrium | TMX Technology Solutions | Equicom

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Agenda

- CDSX Risk Model
 - PFMI Implications
- Business Plan Update
 - Summary
 - Current Initiatives
 - Issuer Services
 - Integrated Securities Management Solution (ISMS)
 - T+2 Settlement

CDSX Risk Model

- CDS is required to be compliant with the CPSS-IOSCO "Principles for Financial Market Infrastructures" or PFMI's
 - Conducted a self-assessment and identified certain areas which require change in order to be compliant
 - Changes will be implemented in 2014 and 2015 to be compliant. The initiative is tackling the highest priority issues first.
 - This initiative is being led by the Risk Management group at CDS with input from participants via the Risk Advisory Committee (RAC).
 - Participant impact and viewpoints on the proposed solutions are encouraged
 - Participation in the RAC is open to all participants

CDSX Risk Model – Cont'd

Some of the key changes currently being worked on include:

- Solution to day-of-default liquidity risk issue in the New York Link service has been identified
 - increase in CDS's liquidity facility
 - explicit transfer of the remaining liquidity risk to NYL participants.
- Elimination of the use of survivors' collateral by defaulting credit ring members.
 - will increase the need for collateral to support payment obligations while reducing potential risk to participants.
 - impact assessments for individual participants are being prepared and will be communicated to affected participants.
- Establishment of default fund for the CNS service
 - addresses potential insufficient defaulters initial margin.
 - the default fund is expected to be approximately \$45 million.

Business Plan Summary

Significant growth opportunities for CDS

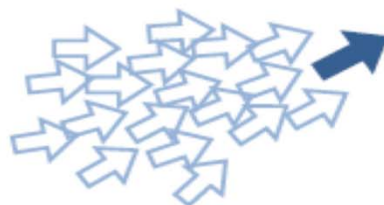
CDS's strategy is to identify new revenue opportunities by leveraging its core capabilities and collaborating with other TMX businesses

DEEPENING CDS'S CENTRAL MARKET ROLE



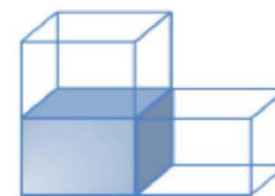
- Enriching service offerings for market participants, issuers, and investors
- Creating and capturing new industry value by reducing costs, managing risks, and taking over scalable, non-differentiating activities

LEADING MARKET TRANSFORMATIONS



- Leveraging CDS's central position to lead market-wide changes that enhance quality of industry operations
- Capturing significant revenue share in re-landscaped market segments

EXPLORING NET NEW MARKETS



- Partnering across TMX to create net new products and services
- Applying core clearing and depository capabilities to new asset classes and geographies
- Providing ancillary risk and data services in new markets

Current Initiatives - Issuer Services

- CDS provides valuable services for issuers that are currently provided at no cost.
 - The distribution of entitlements and corporate action processing are a material contributor to CDS's risk and cost structure
- Other issuer services include ISIN issuance, depository eligibility and registration related services are in some cases not consistently priced for the value received.
- CDS proposes to modify its pricing models for its issuer services so they are
 - consistent with the value provided
 - are not preferential
 - incent certain behaviors and align with global benchmarks, including DTCC.
- Proposed fees have been benchmarked internationally (including DTCC) and are competitive

Current Initiatives – ISMS

Proposed Solution

- Solution is addressing centralized Securities Master and Customer Data Management, Issuer on-boarding and management, Corporate Actions processing (NCS replacement), Billing and Payment and data integration and distribution channels

Key values created

- Increased efficiency through centralized processing of corporate actions
- New product and value+ services enabled through the centralization of data and processing

Key Activities Completed

- Analysis of existing application functions and core business capabilities completed
- Multiple work streams have completed documentation of business requirements

Milestones

- Request for Proposal (RFP) issued to targeted vendors in October 2014
- Product selection(s) and recommendation by EOY 2014
- SOW and contract negotiations by Q2 2015

Current Initiatives - T+2 Settlement

- **Move to T+2 settlement will provide**
 - Reduction in operational risk
 - More efficient allocation of capital
 - Streamline the clearing and settlement process
 - Reduction in procyclicality and margin requirements
 - Reduction in counter-party exposures
 - Reduction in CDS' liquidity needs
- Ensures that the Canadian Marketplace is aligned with International standards (specifically the US Market) for clearing and settlement.
- **Next steps**
 - DTCC will be hosting industry meetings to establish interim milestones for the project in the US market place (No specified target date for implementation).
 - CDS will work with industry participants, regulators and other stakeholders to establish an industry forum
 - the forum will focus its efforts to ensure that timelines established for the move to T+2 in Canada are consistent with the US marketplace.