

**CDS**<sup>®</sup>

**CDS Clearing and Depository Services Inc.**

*CDS 2010 Development Program*

*January 2010*

## Introduction

As part of its annual business plan, CDS identifies the human resource capacity that has been assigned to maintain and enhance its systems and to develop new functionality. These resources are designated as System Development, Enhancement and Maintenance (SDEM) resources and are located in three principal areas: Product Development and Product Support, Business Systems and Development Services and Tata Consulting Services (TCS). Other areas, such as IT Services (ITS), Information Security & Control Services (IS&CS), Risk Management, Legal and Corporate Communications contribute resources as required to support SDEM-related projects. As approved in the 2010 business plan by CDS's board of directors, the total SDEM resource capacity for fiscal 2010 is 14,282 resource days (the equivalent of 62.6 FTEs) or approximately \$6.9 million (based on internal cost recovery rates).

The purpose of publishing this Development Program is to inform participants of the development initiatives that are being undertaken by CDS Clearing and Depository Services Inc. in response to participants' requests for enhanced or new functionality or as a result of initiatives identified by CDS or other stakeholders, such as the regulators of CDS or its participants, that will affect participants. The Development Program explains each specific development initiative that will have a direct impact on participants, the associated benefits and impact to participants, and the planned timelines for development and implementation. The initiatives are categorized by the main service groups offered to participants – Clearing and Settlement, Depository, International Services and Information Services – and updates will be provided on the progress of development to reflect material changes. The resultant report, which follows, is updated by CDS on a monthly basis and is published on the [www.cds.ca](http://www.cds.ca) website.

CDS welcomes comments about the content of this report and how it could be made more useful for participants. If you have any questions about the initiatives identified in the report or suggestions about the report, please contact your account manager or the contact person identified for a specific initiative.

Mark Weseluck  
Chief Business Development Officer  
January 11, 2010

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## Depository Initiatives

**Category:** Depository

**Initiative:** Money market project

*In progress*

### Description

The legal framework and operational functionality for money market securities, including agreed standards for securities eligibility and the format of certificates, were developed in 1998 by CDS in close consultation with its participants. Given the very short timeframes required for the deposit of newly-issued money market securities, the functionality and processes were developed so that a participant acting as either the issuer or the issuer agent would control when the deposit is made, without requiring manual intervention by CDS and provided that the stipulated controls and standards were satisfied. To recognize and support the segregated responsibilities involved in issuing, depositing and processing money market securities, CDS's rules define distinct roles related to these responsibilities: ISIN activator, security validator, entitlements processor and custodian,

As a result of a review of the processes for depositing and processing money market securities in the depository and how the participants that qualify as money market issuers/issuer agents execute their roles and responsibilities, CDS has identified a number of measures that are to be implemented to ensure that the expected controls and standards are being satisfied by participants that deposit money market securities in CDS. These measures include the following:

- > Issuance of bulletins and other supporting documents and convening meetings to remind participants of the obligations associated with their various roles as money market issuers/issuer agents and to inform them of the planned improvements.
- > Implementation of a new application process to qualify as a money market participant.
- > Acceptance of only online submissions of requests for money market issuer codes via CDS Securities Management Solutions Inc. The removal of the acceptability of faxed or hand-delivered requests will allow CDS to implement system validation checks to ensure the information being populated for an issuer code request is valid and is being made by a valid money market participant.
- > New system edits will validate that the ISIN activator has entered and confirmed preliminary issue information and will advise the ISIN activator if the maturity date is greater than 368 days.
- > Implementation of an alert system that will notify CDS Customer Service of any exceptions to the standards applicable to the money market deposit process, such as maturities of more than 368 days and deposits for which no trades have been executed, for follow-up with the issuer agent.
- > System edits that will preclude the same user from both entering and confirming a deposit of a money market security.
- > Creating a new field on the deposit list screen "confirmation code" to require the security validator to indicate whether the security has been issued in physical or uncertificated form so that the register can be properly updated and, if applicable, require the security validator to confirm that the security is in good order for the custodian to accept for safekeeping.
- > A new money market physical holdings position file periodically issued by CDS that will require the custodian to confirm its physical inventory holdings against the CDSX ledger positions. Any exceptions must be reported to CDS and reconciled by the custodian.
- > Regular attestations by money market participants of their compliance with the controls and standards stipulated by CDS for the deposit and processing of money market securities.
- > Implementation of rule and procedure changes to support the preceding measures.

**Benefits**

Money market securities are traded and pledged between participants, are pledged as collateral for collateral pools and are given relatively high aggregate collateral value (ACV) to collateralize participants' settlement activity. In order to safeguard the integrity of the CDS system and to protect other participants that transact in money market securities, there must be effective controls in place to ensure that the money market participants properly execute their roles as ISIN activator, security validator, entitlements processor and custodian. The planned changes will provide added assurance that the money market securities are being deposited and processed properly so that they can continue to be traded and used as collateral.

**External Impact**

Money market participants will be required to ensure that they meet the enhanced requirements, which could include improved segregation of responsibilities and additional controls. Customer Service is keeping the money market participants informed of the planned changes and the schedule for implementation.

**Milestones**

<b>1. Board approval</b>	September 30, 2009	Approved
<b>2. Business requirements</b>	<del>December 18, 2009</del> January 15, 2010	On track for revised schedule
<b>3. Functional analysis</b>	<del>December 30, 2009</del> February 1, 2010	On track for revised schedule
<b>4. Code development</b>	February 26, 2009	On schedule
<b>5. User acceptance testing</b>	March 19, 2010	On schedule
<b>6. Regression testing</b>	March 26, 2010	On schedule
<b>7. Rule and procedure amendments</b>	April 1, 2010	On schedule for approval and release for regulatory review
<b>8. Implementation</b>	April 3, 2010 (Release 2)	On schedule

**Progress Update**

Although there has been some delay in finalizing the business requirements and functional analysis for the system changes planned for Release 2, the delay is not expected to impede completion of the development and implementation of the required system changes by the weekend of April 3, 2010 (Release 2) for application effective on April 5.

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**Category: Depository**

**Initiative: Transfer agents as paying agents for dividend and interest payments**

*In progress*

**Description**

The BEO Securities Services Agreement (BEO SSA) implemented by CDS in 2009 to replace the Letters of Representation sets out the terms and conditions by which CDS will act as the depository for book-entry-only securities. A new provision implemented as part of the BEO SSA stipulates that all entitlement payments for securities governed by a BEO SSA must be paid to CDS in final and irrevocable funds in electronic form. Similarly, CDS has implemented a rule that will come into effect on November 1, 2011 that will require all dividend and interest payments to be paid in final, irrevocable funds in electronic form to CDS, regardless of whether a BEO SSA applies.

To ensure that issuers will be able to meet these requirements for payment of dividend and interest payments entitlements for securities held by CDS, CDS has been working with some limited participant transfer agents (TA), in their role as designated paying agent for issuers, to design an efficient process that would enable them to efficiently assume the role of paying agent in CDSX as a means of making entitlement payments in electronic form. The planned system changes include the development of functionality to create and/or receive and process three files:

- > Receipt and processing of a file from the TA with information to be matched against expected entitlement payments shown in NCS
- > A file produced by CDS and sent to the TA that includes all matched and unmatched payments derived from the first file for confirmation of the matched payments and to assist in reconciling unmatched payments
- > A file produced by CDS to enable the TA to verify and release the entitlement payments on payment date, either manually or automatically.

CDS also will implement improvements to its reconciliation process so that it can more efficiently reconcile any unmatched payments and adjust the events in NCS accordingly.

**Benefits**

The new processes will help to eliminate the use of cheques for the payment of entitlements payments and allow the payment process to be more automated within CDS and, depending on the extent adopted, within the transfer agents. The new reconciliation process between CDS and the transfer agents will result in discrepancies being resolved in a more timely manner. These changes will reduce the costs and risk of errors associated with manual processing of cheques and entitlement payments by CDS and the transfer agents.

**External Impact**

Participants will not be required to make any changes in order to continue receiving entitlement payments. The changes will apply to CDS and the transfer agents.

**Milestones**

<b>1. Business requirements</b>	December 4, 2009	Completed
<b>2. Functional analysis</b>	January 22, 2010	On schedule
<b>3. Code development</b>	April 16, 2010	On schedule
<b>4. Regression/system integration testing</b>	To be determined	To be determined
<b>5. User acceptance testing</b>	May 14, 2010	On schedule
<b>6. Procedure amendments</b>	May 28, 2010	On schedule
<b>7. Implementation</b>	May 29, 2010	On schedule

### Progress Update

Most dates for the project plan for this initiative have been determined and progress is proceeding on schedule.

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**Category: Depository**

**Initiative: Automated processing of changes in securities positions initiated by treasury directions or cross-border moves**

*In progress*

**Description**

CDS has been engaged in discussions with some transfer agents to identify ways by which they could more efficiently increase or decrease security positions. Such changes in positions would be applied upon confirmation by a participant in CDSX for uncertificated issues and upon receipt of the completed transfer request from inventory for certificated issues. The planned process would enable transfer agents to initiate a transaction that, upon confirmation by a CDS participant, would interface with CDSX for increases or decreases to participants' security position holdings. The new process would be available for the processing of exercised stock options, buy-backs and certain cross-border moves where the position is moving between the registries maintained by the same transfer agent in two countries.

Transfer agents that have access to CDSX would create a transaction, either through messaging or instructions entered online, that would, upon confirmation by the participant, increase or decrease the participant's and custodian ledger balance in CDSX. The transaction also would interact with CDS's internal securities inventory management system if the issue is certificated and requires an increase or decrease in the securities inventory. Notification will be provided to the submitter and receiver for entries, completions and rejections and the status of the transaction will be available for review during the life cycle.

**Benefits**

The new process will promote dematerialization as it will enable the transfer agent and CDS participants to process transactions electronically without the requirements for the issuance of physical certificates. For stock options, the new transaction eliminates the issuance of certificates that are subsequently deposited in CDS and cancelled by the transfer agent. The information provided for buy-backs will help CDS better manage discrepancies that can arise between its records and the records of the transfer agent if a corporate event occurs during a buy-back. Also, the new process will enable the transfer agent to initiate an increase to a participant's security holdings in CDSX on the effective date for a cross-border move, thereby ensuring the registry and CDS's records are in balance.

**External Impact**

A new transaction type will be added to the deposit and withdrawal online screens, message layouts and reports. Both participants and transfer agents will need to add the new information to their message layouts and process flows. Transfer agents that interface through messaging will need to develop new message layouts to submit and receive the new transaction to CDS.

**Milestones**

<b>1. Detailed business requirements</b>	January 8, 2010	Completed for participant review
<b>2. Functional analysis</b>	January 29, 2010	On schedule
<b>3. Code development</b>	To be determined	To be determined
<b>4. Regression and system integration testing</b>	To be determined	To be determined
<b>5. User acceptance testing</b>	To be determined	To be determined
<b>6. Rule and procedure amendments</b>	To be determined	To be determined
<b>7. Implementation</b>	To be determined	To be determined

### Progress Update

The proposed process changes will be presented to the members of the SDRC Debt and Equity Subcommittee on January 13 for review and comment. Subject to their comments, the business requirements, functional analysis, associated resource requirements and project plan deliverable dates will be finalized.

### Contact

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**Category: Depository**

**Initiative: Invoicing option for ISIN requests**

*In progress*

**Description**

In 2009, CDS created a new subsidiary, CDS Securities Management Solutions Inc. (CDS Solutions), to provide certain services to issuers and their agents, such as the issuance of ISINs for new issues. To improve the efficiency of the process for requesting and receiving ISINs, a web-based application was created that enabled issuers or their agents to request ISINs online. The application also required that payment for the issued ISIN be made by credit card, rather than by invoicing and cheques.

However, some participants expressed a preference for continuing to use the invoicing process by which the various charges for CDS services are consolidated on a single monthly invoice and payment is made through their funds account. In response to these requests, CDS is developing an alternative process for paying for ISINs by which participants will be able to add such purchases to their monthly invoices. The invoicing alternative will apply the web infrastructure and associated security measures to ensure that the proper invoice is being billed.

**Benefits**

This enhancement to the ISIN issuance application will give participants a choice of paying for ISINs by credit card or as another charge on their monthly CDS invoices. The invoicing alternative will benefit participants that have internal restrictions on staff access to credit cards for corporate payments.

**External Impact**

In order to use the invoicing option and the associated security measures, participants will have to access the invoicing option for the CDS Solutions ISIN issuance application via a link through the CDS Clearing and Depository Services Inc. website ([www.cds.ca](http://www.cds.ca)).

**Milestones**

<b>1. Business requirements</b>	December 18, 2009	Completed
<b>2. Functional analysis</b>	December 23, 2009	Completed
<b>3. Code development</b>	<del>December 30, 2009</del> January 8, 2010	Completion scheduled for January 12, 2010
<b>4. User acceptance and system integration testing</b>	January 22, 2010	Completion scheduled for January 26, 2010
<b>5. Regression testing</b>	January 29, 2010	On schedule
<b>6. Implementation</b>	February 6, 2010 (Release 1)	On schedule

**Progress Update**

The proposed process has been reviewed with participants that requested the invoicing payment option and was accepted. Work is progressing towards implementation during the weekend of February 6, 2010 (Release 1) for production on February 8.

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**Category:** Depository

**Initiative:** Non-transferable issue (NTI) certificate imaging and destruction program

*In progress*

### Description

Of the physical certificates that CDS has on deposit, over 70 per cent are classified as non-transferable issues (i.e., securities in which ownership or registration is no longer transferable). To better manage its inventory of securities, CDS is implementing a new program whereby eligible NTI certificates will be scanned and digitally stored, along with any attached documents, in a new database as replacements for the physical NTI certificates. Once the issues have been scanned and saved, destruction of the NTIs will be undertaken with suitable risk controls in place.

CDS will check various sources to confirm that an issue is no longer transferable. A criterion for determining whether an NTI is eligible for scanning and destruction is whether it has been non-transferable for at least seven consecutive years. This period was selected as it is highly unlikely that an issue will be reactivated after that period of time and because it reflects the period typically used for record retention (DTC in the U.S. has a similar NTI destruction program that uses six consecutive years of non-transferability as a criterion for destruction).

Subject to regulatory approval, the program is scheduled to be fully launched in fall 2010, when the first large number of NTI certificates will be scanned and stored electronically and then destroyed. This will be seven years after the introduction of CDSX, when certificates started to be recorded and tracked as NTI. A bulletin will be issued to participants to identify the dates and issues planned for destruction. Participants will be able to deposit any of the issues identified as eligible for the NTI certificate destruction program so that they can include their NTI certificates in the destruction process.

In the event that an NTI that has been stored electronically is reactivated by an issuer, CDS would contact the issuer and request its approval to proceed with replacing the certificate(s) based on the electronic scanned copy and associated documentation, without the need for a bond of indemnity. If the issuer agrees, CDS would work with the issuer's transfer agent to effect replacement. If the issuer or transfer agent requires a bond of indemnity, CDS would provide one that will be issued under its insurance program.

### Benefits

By replacing worthless NTI certificates, which represent the majority of CDS's holdings of certificates, with stored electronic images, CDS will be able to substantially reduce its demand for vault capacity while maintaining the ability to support the reactivation of an issue at a later date. The program will allow CDS to reduce its costs and risks associated with managing physical inventory of certificates.

### External Impact

Participants' ledger positions will not be affected nor will their holdings of depository acknowledgements (DAs), which replaced their ledger positions in NTIs, be affected by the program. CDS will continue to reconcile its positions of physical and electronic NTIs with participants' ledger positions and DAs.

**Milestones**

<b>1. System changes</b>	June 27, 2009 (Release 2)	Completed
<b>2. Rule amendments</b>	July 31, 2009	Under regulatory review
<b>3. Pilot</b>	<del>October 2009</del> TBD	New date to be determined following review of regulatory response
<b>4. Launch full program</b>	October 2010	On schedule

**Progress Update**

The development was completed and implemented in June 2009. Identification and preparation of the non-transferable issues eligible for the imaging and destruction program are continuing while CDS addresses the feedback from the regulators about the program.

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## International Initiatives

**Category: International (SDRC Equity Subcommittee initiative)**

**Initiative: SEC Regulation SHO Rule 204 – correction screens**

*In progress*

### Description

On July 27, 2009, the Securities and Exchange Commission (SEC) issued its final version of Rule 204 under Regulation SHO (Reg SHO). Under the new rule, all fails in NSCC are to be closed out by the morning after settlement date, with the exception of sales deemed to be “long” sales or sales of “deemed to own” securities (that include Rule 144 issues), which must be closed out three business days after settlement date and 35 calendar days after trade date, respectively. Rule 204 applies to CDS and the New York Link (NYL) participants that it sponsors in NSCC. NYL participants are required to close out any fails in NSCC in accordance with Rule 204. To assist NYL participants in complying with Rule 204, CDS developed a series of CDSX input screens and a report that enable participants to monitor the close out of transactions subject to Regulation SHO.

The SDRC Equity Subcommittee has subsequently requested the development of a management monitoring tool and the ability to make input corrections. To achieve this, the following three changes will be made to the Reg SHO function of CDSX as part of Release 1, which is scheduled for early February 2010.

- > A new screen will be added that will list all of a participant’s current business day’s close-out requirements (which is currently available on Report RMS140, the “Projected Close Out Report – New York Link Service”). This list screen will serve as the first point of entry into the Reg SHO functions and will be updated with real-time information as the participant completes input identifying that their required close-out positions have been covered or are exempt. The screen also will serve as a management tool by allowing participants to quickly verify that:
  - > their firm’s online input has been completed by the daily 10:00 a.m. ET deadline
  - > the quantity identified as being covered by the participant is correct
  - > the quantity that has been left uncovered for CDS to take action on is correct.
- > A second new screen – the “Exemption Correction” screen - will be created to allow participants to correct an exempted position entered incorrectly as a “Long” sale, and show it as a “Deemed to Own” position
- > Also, on the “RegSHO Covered Position Declaration” screen, participants will be able to correct a position declared as covered to being exempt as a “Long” or “Deemed to Own” position up to the daily 10:00 a.m. ET cutoff time.

### Benefits

The two main benefits are that (i) the list screen will allow participants to quickly determine which positions and quantities they have covered, and which have been left for CDS to close out, and (ii) the new screens will allow participants to correct input errors made when declaring or exempting short positions.

### External Impact

The new screens will be accessible in the same way as the current screens for Regulation SHO information so participants will not need to make any significant changes to their processes.

**Milestones**

<b>1. Subcommittee approval</b>	September 15, 2009	Completed
<b>2. Business requirements</b>	September 29, 2009	Completed
<b>3. Functional analysis</b>	November 27, 2009	Completed
<b>4. Code development</b>	December 30, 2009	Completed
<b>5. User acceptance testing</b>	January 15, 2010	On schedule
<b>6. Regression testing</b>	January 29, 2010	On schedule
<b>7. Procedure amendments</b>	February 5, 2010	To be issued on December 18, 2009 for regulatory review
<b>8. Implementation</b>	February 6, 2010 (Release 1)	On schedule

**Progress Update**

Work is progressing on track towards implementation as part of Release 1, which is scheduled for implementation on the weekend of February 6, 2010 (Release 1) for production on February 8.

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**Category:** International

**Initiative:** Sponsorship-only service for ACT participants

*In progress*

### Description

In the last few quarters, CDS has experienced reduced volumes for its ACT service, through which it provides connectivity to NASDAQ's Automated Confirmation Transaction (ACT) service, as some participants have chosen to route their trades through other vendor applications. CDS has assessed whether it could sufficiently enhance its ACT connectivity application to compete with alternatives offered by other service providers and has determined that the investment required to offer a competitive system would be cost prohibitive relative to the potential volumes available from participants. In addition to the cost of developing enhanced functionality, substantial cost would be required to upgrade the supporting hardware, operating environment and database. An analysis has determined that a direct connection to NASDAQ's WebLink ACT 2.0 would offer an efficient and cost-effective solution. Under such an arrangement, CDS would cease to offer network support and an ACT workstation as a service bureau for participants but would continue to sponsor participants into the NASDAQ ACT service for purposes of meeting membership requirements and complying with regulatory requirements stipulated by FINRA.

In order to effect these changes and ensure compliance with FINRA's rules, CDS will undertake the following:

- > Implement a process to receive a daily activity report from NASDAQ for trades executed by CDS-sponsored participants in NASDAQ's ACT system.
- > Develop an exception report that identifies non-compliant trading activities by participants, based on rules established by NASDAQ and FINRA and the daily activity report received from NASDAQ. The NASDAQ report will be used as a monitoring tool by CDS to notify participants and apply the appropriate measure to ensure compliance.
- > Develop an automated billing process based on the daily activity report received by CDS from NASDAQ.
- > Implement a transition process to assist participants in transferring to the NASDAQ WebLink ACT 2.0 connection or other arrangement before the end of April 2010.

Also, to ensure that participants will be able to comply with a new FINRA rule that requires NASDAQ ACT participants to identify the markets on which automated give-up trades have been executed by March 1, 2010, CDS-sponsored participants that are affected by the rule will be transferred to NASDAQ's ACT WebLink service by the end of February.

### Benefits

By directly connecting with NASDAQ's WebLink system, participants will benefit from any system upgrades implemented by NASDAQ and the cost savings to CDS will result in lower fees to participants for using the CDS ACT service. The sponsorship arrangement provided by CDS is a more efficient process for assuring that the NASDAQ membership and FINRA regulatory requirements are satisfied than if each CDS ACT participant applied directly.

### External Impact

Participants that use ACT will need to undertake the appropriate measures to transfer from CDS's ACT system to NASDAQ's WebLink ACT 2.0 system or other arrangement. CDS will implement a transition plan with the necessary information and support to facilitate the transfer.

**Milestones**

<b>1. Board approval</b>	September 30, 2009	Approved
<b>2. Business requirements</b>	November 7, 2009	Completed
<b>3. Detailed level design/functional analysis</b>	December 11, 2009	Completed
<b>4. Code development</b>	February 26, 2010	On schedule
<b>5. User acceptance testing</b>	March 12, 2010	On schedule
<b>6. Procedure amendments</b>	April 8, 2010	To be released following SDRC review in January
<b>7. Implementation</b>	April 3, 2010 (Release 2)	On schedule
<b>8. Conversion of participants to WebLink</b>	April 16 - 26, 2010	On schedule
<b>9. Decommission ACT software</b>	April 30, 2010	On schedule

**Progress Update**

Work is proceeding on track to achieve the schedule of milestones. Participants have been advised of the plan to switch connectivity to the NASDAQ WebLink 2.0 system and a transition plan will be released soon to help participants prepare for the transfer.

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## Information Services Initiatives

**Category:** Information Services (SDRC Tax Subcommittee initiative)

**Initiative:** Corporate action tax information service initiative

*In progress*

### Description

The Tax Subcommittee has asked CDS to develop a single source of tax treatment information regarding corporate action events so that participants can efficiently obtain and report tax information to serve their clients' needs without having to research multiple sources. A working group has been created to define the type of corporate actions and tax information to be included in the service and how the information should be made available and/or disseminated. The results of the working group's deliberations will form the basis for the business requirements for review by the Tax Subcommittee and the Entitlements Subcommittee. CDS will seek confirmation from members that the service would provide them with an expected amount of savings if the service is implemented as proposed.

### Benefits

Having access to a single source of tax information regarding corporate actions would enable participants to substantially reduce the amount of research they have to undertake to determine the tax treatment of specific corporate actions and the associated costs. This service also would enable participants to apply consistent tax treatment to their clients based on the information maintained in CDS's central source.

### External Impact

Participants that subscribe for this service would be able to obtain the information either through corporate action bulletins or through MT564/568 messages.

### Progress Update

Milestones will be set for this initiative once the scope and business requirements have been reviewed by the Tax Subcommittee and the Entitlements Subcommittee.

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