

THE CANADIAN DEPOSITORY FOR SECURITIES LIMITED

Reorganization and restructuring key to future growth

Over the past year, CDS has committed to a corporate reorganization and restructuring unprecedented in its 36-year history. The first step was taken in February 2006 when the company underwent an internal reorganization of people and responsibilities. On November 1, subject to approval by its regulators, the legal restructuring of the company will be implemented along with the allocation of assets to the new corporate entities.

The resultant restructuring will consist of a holding company, The Canadian Depository for Securities Limited (CDS Ltd.) and three operating companies, one for each of CDS's subsidiary businesses:

- **CDS Clearing and Depository Services Inc.** (CDS) will handle the core business of clearing, settlement and depository for both domestic and international trading.
- **CDS INC.** will provide products and services to the investment community on behalf of the Canadian Securities Administrators (CSA). These include SEDAR®, SEDi® and NRD® (co-sponsored by The Investment Dealers Association of Canada (IDA)).
- **CDS Innovations Inc.** (Innovations) will provide a growing range of offerings to meet ever-changing market demands for securities data and other services.

The new structure positions CDS for the future by risk-proofing the core business – eliminating to the maximum degree possible any spillover risk between the regulated and non-regulated businesses, so that the clearing and settlement business is self-contained and protected.

Ian Gilhooley, CDS's chief operating officer explains, "Our clearing, settlement and depository business needs to be delivered with minimal-to-no risk. We handle \$200 billion of trading value per day and exchange \$4 billion to \$5 billion every day at four o'clock in the afternoon. So, risk management has always been very, very important to this company and now our core business will be protected from anything else we might be doing in other areas where the risk/reward equation is different than in our core business."

Along with risk containment, the restructuring allowed CDS to implement an internal reorganization, enabling it to focus on its core competencies – clearing and settlement, custody, corporate actions processing, etc. The resulting vertical organizational structure maximizes operational efficiencies.

The holding company CDS Ltd. will generate no revenue in its own right. It will provide support services to the operating subsidiaries. Each of the subsidiaries will share services from CDS Ltd. for the provision of executive management, administration, facilities, accounting, human resources, legal services, risk management and IT services.

A guiding principle of the restructuring is that there should be minimal disruption to participants and customers. Ultimately, most participants will simply have to re-sign their Participant Agreements so that instead of dealing with CDS Ltd., as they did previously, they will deal with CDS Clearing and Depository Services Inc. This will not change any day-to-day functionality and is merely part of the paperwork process.

In certain cases the rationalization of services will cause some procedural changes. A number of services (e.g., ATON™ and Courier) related to clearing and settlement will move from CDS INC. into CDS Clearing and Depository Services Inc., where they will be covered by CDS's *Participant Rules* instead of the previous service contracts.

Another goal of the restructuring is to maximize operational efficiencies by making managers responsible for all aspects of their businesses – both operationally and financially. According to Gilhooley, "I think that this restructuring will fundamentally change the culture of the organization and I think the subsidiary operating companies will over time begin to operate as independent businesses. Today, they operate as departments within a larger corporate context, but I think you're going to see that change, resulting in more initiative and innovation."

CDS Clearing and Depository Services Inc.

CDS Clearing and Depository Services remains the core CDS business with a continued mission to be the world standard for clearing and settlement. Virtually all participant services are now offered by CDS Clearing and Depository Services including: trade, clearing and settlement services; cross-border services; and depository, custodial and entitlements services.

As Keith Evans, executive director, Operations explains, "Our goal is still to deliver high quality services to the community, day in and day out. The same policies, the same time frames, the same deliverables to the community still exist. The only thing that's different from an operational perspective is that Customer Service is now Customer Service *and* Product Development."

Consolidating customer service and product development gives the product development team



"The world is changing at a tremendous pace. The business is changing. The construct is changing and CDS is not exempt from these changes. In order not to become redundant,

CDS is proactively adapting – corporately, structurally and legally. This will enable CDS to position itself to take advantage of customer needs and global and/or domestic trends and be an effective and cost-efficient contributor to the marketplace."

– Allan Cooper, president and chief executive officer

a closer interface with the customer. The customer service representatives, with their direct client contact, can provide the development team with timely customer responses and concerns, thus shortening the development cycle for new products and/or enhancements.

According to Mark Weseluck, executive director, Customer Service & Product Development, "Common issues or concerns with our clients or trends in the marketplace are opportunities for CDS to provide greater efficiency and a more cost-effective solution for product participants. Merging customer service and product development allows us to respond, prioritize and act more quickly."

There is also a new focus in Customer Service. The customer service representatives now have a mandate to be proactive in dealing with participants. Rather than waiting for calls to come in, the representatives are now contacting and visiting participants to better understand their needs and advise them on how to better utilize the range of products and services that CDS offers. Depending on the needs of the client, these contacts can be on a weekly, monthly, quarterly, semi-annual or yearly basis. As well, new approaches including interactive webinars and product presentations are being implemented. This new customer service role will evolve over the next year as customer service pursues its new mandate to support, explain and educate.

Creating the new Customer Service & Product Development division also allowed Operations to focus exclusively on operations, which is especially important in today's business continuity planning (BCP) environment.

On the Operations side, there are a number of new initiatives and enhancements for CDSX® including:

- In May 2006, CDSX Release 2 included two new exchange codes – one for Pure Trading and one

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Largest single corporate actions event in CDS history completed

August 17, 2006 – The Canadian Depository for Securities Limited (CDS) announced today the completion of the largest single corporate actions event in CDS history – the transfer of **over C\$13 billion** of Falconbridge shares in a single transaction.

"What made this particular transaction special is that one transaction alone had a book value that is equivalent to the total value of all corporate action transactions typically processed by CDS in a single month," said Keith Evans, executive director, Operations, CDS.

Shares of almost all public companies traded in Canada are held in the nominee name of CDS & Co. – a fact that many investors are unaware of. The exchange of securities on deposit at CDS are tracked via a sophisticated electronic book-entry system.

Beneficial ownership (by individual shareholders) is managed through electronic ledgers for each participating institution, each in turn holding positions on behalf of their customers. Physical securities still exist to this day, but immobilization through an electronic system virtually eliminates the risk of those securities being lost, damaged or stolen.

"In 2005, CDS processed over 127,000 entitlement events, each involving many transactions, and representing over \$2.7 trillion in value," said Evans.

As nominee security holder of record for most Canadian securities, transfer agents are required to provide CDS with primary-source entitlement information from issuers. Information on a corporate event is disseminated by CDS via an electronic bulletin service to CDS participants, who in turn pass the information on to their clients.

Being first to receive most entitlement data is a competitive advantage that clearly establishes CDS as an authoritative source of Canadian entitlement information to the securities industry. ■



From left: Peter Muscat, senior analyst, Voluntary Corporate Actions, CDS; Mark Fabricius, managing director, SIES, CDS and Wesley J. Hall, president, Kingsdale Shareholder Services Inc.

Reorganization and restructuring... (cont'd)

for TriAct®, both of which are expected to launch later this year. In addition, the interface for adding new exchanges was generalized, making it easier to add new exchanges in the future.

- In August, as part of Release 3, new functionality was added to the daily Reg SHO Threshold Securities Report received by CDS's cross-border customers. This follows discussion with the U.S. Securities and Exchange Commission (SEC). Along with the new functionality, amendments to the *Participant Rules* now authorize CDS under certain conditions to close out a participant's fail-to-deliver position in a threshold security, thus ensuring compliance with Regulation SHO.
- In September, data expansion will be installed for entitlements processing. Data management, the second phase of this initiative, will be added in February 2007.
- A new SWIFT-enabled International Message Hub (IMHub) for depository linkages will be delivered in November. This will improve existing links with CDS's current custodial partners JASDEC (Japan), Euroclear France and Skandinaviska Enskilda Banken AB (SEB), and will facilitate new links with other international depositories. Again, the interface has been generalized to limit the amount of customization required to bring new depositories into the CDSX system.

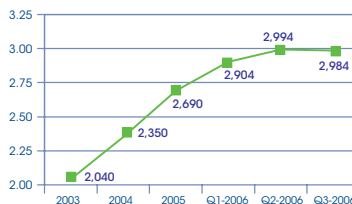
CDS Clearing and Depository Services also has a number of longer-range projects in the planning/discussion stage.

- In response to participant interest in an entrée to the U.K. markets, CDS is looking into becoming a member of Crestco, a move that would give Canadian investors ready access to the London Stock Exchange (LSE) and AIM, the LSE's exchange for smaller, emerging companies.
- CDS is undertaking an initiative to improve the securities borrowing and lending infrastructure in Canada. Currently in development is a new auto stock borrow program to cover continuous net settlement (CNS) shorts and an enhancement to CDSX to automate entitlements tracking to capture security loan items.
- As a risk-reduction measure, CDS hopes to expand the use of Large Value Transfer System (LVTS) funds – making it mandatory that all entitlement payments to CDS be made through LVTS.
- Following industry suggestions, CDS is studying enhancements to the DetNet system to enhance the netting of repo trades.

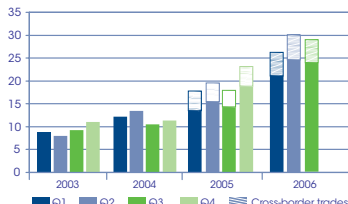
Numbers to watch

CDS statistics at a glance

Value on deposit
(billions of dollars)



Trades reported
(millions of trades)



CDS INC.

CDS INC. is the least affected by the restructuring. Incorporated in 1995 to offer CDS's complementary services, CDS INC. is already a stand-alone business division with its own management team and financial reporting in place.

Under the February reorganization, CDS INC. was refocused to deal with only those services sponsored by the CSA – SEDAR, SEDI and NRD. All of CDS INC.'s non-participant services, information services, bulletins and SCRIBE and SEDI dissemination services will be transferred to other CDS subsidiaries. This segregation of CSA services allows CDS INC.

to concentrate fully on servicing its client and continuing to provide a high level of service to the financial community. As Ansley Currie, executive director, CDS INC. says, "The community needs to understand that we're going to be continuing to provide the same services and the same level of service as before. They're not going to see any difference."

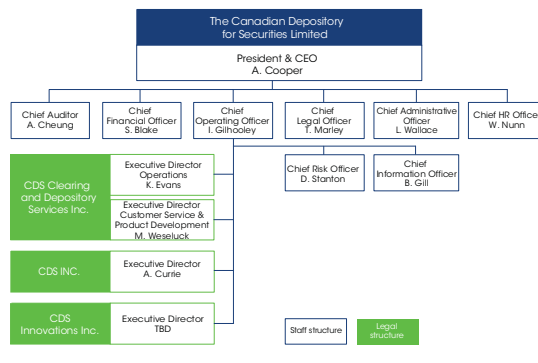
Though it's business as usual at CDS INC., innovation is a priority for 2007 and 2008 as CDS INC. investigates a number of product enhancements that include:

- Speeding up the replication of SEDAR.com from overnight to near real time
- Creating a single data repository for SEDAR and SEDI
- Web-enabling SEDAR
- Upgrading SEDAR to XBRL
- Upgrading the NRD registration system to conform to the new amendments to National Instrument 31-102.

CDS INC. is also part of the consultation team for the SEDI Modernization Project, currently being undertaken by the Ontario Securities Commission (OSC) on behalf of CSA and the provincial regulators. A usability study was completed in May 2006 and currently the OSC is studying the use case data that was collected during the study. A CDS employee has been seconded to the project, which is expected to go into development early next year.

In January 2007, SEDAR will celebrate a major milestone – its 10th anniversary. In 10 years, over 1.5 million documents have been filed on SEDAR

CDS organization chart



and it now services more than 5,000 public issuers and 2,000 investment funds. The public site SEDAR.com frequently receives more than one million hits during the course of a day.

CDS Innovations Inc.

The mandate of CDS Innovations is to incubate new businesses, which are not in CDS's traditional areas of business. Primarily aimed at non-participants, Innovations' work may build and expand on services already offered by CDS Clearing and Depository Services and/or CDS INC., or build on CDS's core competencies in a non-traditional approach.

At Innovations, the risk/reward equation is quite a bit different from the other companies, making Innovations a more entrepreneurial environment. Working closely with the other CDS subsidiaries, Innovations will develop new products or adapt and enhance existing products for its non-participant market.

Innovations has a full range of information services to satisfy the needs of global corporate actions and equity information providers, corporate action and entitlements specialists, and other data vendors and solution providers for fast, accurate, reliable and complete Canadian securities data.

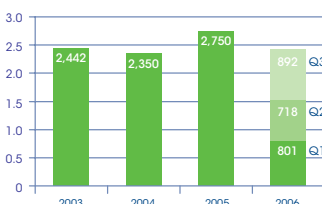
Initially, Innovations is concentrating on the sales and marketing of CDS's data dissemination products such as SEDAR-SCRIBE, an electronic data feed of domestic public company and investment fund filings, international third party filings and public corporate action information and SEDI-SCRIBE, the only comprehensive wholesale source for filings regarding holdings and transactions of insiders in Canadian public companies.

Additional services offered by Innovations to non-participants include: CDS Bulletins, CDS Security Master File, CDS Entitlements Data Feed, Entitlements Messaging and the Reg SHO Threshold Securities Data Feed.

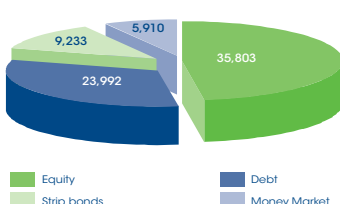
Building for the future

The key to CDS's business is understanding the needs of its stakeholders – becoming conversant in their concerns and expert in their businesses. By restructuring its business around core competencies, merging customer service and product development, focusing CDS INC. on its CSA products and establishing Innovations as an entrepreneurial product development and marketing centre, CDS has ensured that it can meet the evolving needs of its participant base and continue to deliver secure and reliable securities market services.

Value of entitlements processed
(billions of dollars)



Number of eligible issues
(in thousands)



Service level standards – Status as at July 31, 2006

Reliability/availability measures	Result
Network availability	≥ 99.8% annual average 99.9%
Operational reliability	≥ 99.4% annual average 99.9%
Payment exchange	≥ 99.6% annual average* 100%
Days of disruption	One day or less per year None to date
Disaster recovery plan	100% successful test Completed on Nov. 11, 2005
Customer service measures	
Claims	100% processed within 20 business days 2 claims Total value of claims US\$7,062 C\$1,259.39
Entitlement processing measures	
Payments on payable date	Entitlement payments (in dollars) will be paid as follows: 1. ≥ 99.9% of income entitlements (interest and dividends) on payable date 2. ≥ 99.9% of all corporate actions (reorganizations) on payable date where pre-determined** 3. Where funds have been released to CDS after established time frames, funds will be paid the following business day 100% of the time 99.6% 100% 100%
Published information	99.0% of entitlement information bulletins will be published within 24 hours of receipt of information 99.9%
Entitlement information accuracy	100% of entitlement information bulletins requiring corrections will be completed within two business hours of confirmed notification/detection by CDS 100%

*Excluding customer extensions. **Where not pre-determined, deemed to be date on which funds are released to CDS.

Comments

We welcome comments on CDS News so that we can better meet your needs. Contact Janet Comeau at 416-365-8427 or e-mail jcomeau@cds.ca.

To subscribe or to unsubscribe from this publication, e-mail corpcomm@cds.ca.

Complaints or compliments

Speak to your account manager or your regional customer service manager.

- Toronto – Cindy Ferguson at 416-365-8605 or e-mail cferguson@cds.ca
- Montreal – Ron Meyer at 514-848-6162 or e-mail rmeyer@cds.ca
- Vancouver – Joseph Chau at 604-631-6013 or e-mail jchau@cds.ca
- Calgary – Dawn Davies at 403-232-5676 or e-mail ddavies@cds.ca
- Halifax – Fred Cosgrove at 902-425-0929 or e-mail foosgrove@cds.ca

Contributors

Paul Caulfield, Michelle A. Moore

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