

CSDs: Canada CDS (Canada)

Date: 16 Dec 2008

SMI Markets: Canada

CMIRR Markets: Canada

## CDS Dematerialisation Project in Canada

The Canadian Depository for Securities Limited (CDS) has announced its project to have all securities dematerialised in order to make Canada's system as electronic as possible. The move is consistent with the goal of the Canadian Capital Markets Association.

The strategy includes eliminating the physical certificates by converting the existing certificates in the vaults into electronic form and reducing the flow of new physical issues into the depository through the new Book-Entry Only (BEO) securities services agreement.

Existing certificates can generally be classified into one of two categories - either certificates from current, eligible issues or certificates related to non-transferable issues (NTIs). The current issues held in the vaults will be converted into non-certificated inventory (NCI) or deferred certificate inventory (DCI). The elimination of NTIs, which represent 70% of the certificates in the vaults, is a further phase of the process. NTIs are issues that no longer have a transfer agent because the company that issued them is no longer active in the market. CDS is working to identify those NTIs and will destroy them after an electronic image has been made in order to keep a proof of existence.

CDS has identified a number of benefits for the Canadian capital markets and CDS Clearing participants in achieving dematerialisation of securities, including:

- a reduction in costs associated to trading and settlement of securities,
- a reduction in risk of lost, accidentally destroyed or fraudulent activity with physical securities,
- a reduction in cost from replacement, safekeeping, custodial and transport of physical securities, and
- a more effective and efficient securities market with only dematerialised securities potentially supporting a reduction in the settlement period.

CDS has targeted 2014 as the dematerialisation deadline.

## CSD Risk Impact

### Canada CDS (Canada)

CSD Rating: AA

CSD Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = AA

Flash Impact = Positive

Impacted Risk Type: Operational Risk

Current Rating = AA+

Flash Impact = Positive

CDS's plan to eliminate physical certificates and hold all securities in the depository in dematerialised form should improve liquidity in the market as securities will be transferred in electronic form. The dematerialisation of securities also eliminates the operational risk surrounding the safekeeping of physical certificates (e.g. loss, theft, damage), and reduces cost associated with the administration of the certificates.

## Market Information Impact

### Canada

This information affects the data contained in the Settlement and Safekeeping/Post Settlement sections of the Securities Market Information Service.

## Infrastructure Risk Ratings Impact

## Canada

Market Rating: AA

Market Flash Impact: Positive

Impacted Risk Type: Liquidity Risk

Current Rating = AA

Flash Impact = Positive

Impacted Risk Type: Operational Risk

Current Rating = AA+

Flash Impact = Positive

CDS's plan to eliminate physical certificates and hold all securities in the depository in dematerialised form should improve liquidity in the market as securities will be transferred in electronic form. The dematerialisation of securities also eliminates the operational risk surrounding the safekeeping of physical certificates (e.g. loss, theft, damage), and reduces cost associated with the administration of the certificates.

Although the project is a long-term one, the development of the plan to achieve dematerialisation of securities is positive step for reducing risk in the market.

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