



Putting our expertise to work.

Annual Report 2008

A year in review



CDS Clearing welcomes Omega ATS as a new source of exchange trades into CDSX

CDS rebates \$8 million (plus GST where applicable) to participants

CDS announces the appointment of Ian Gilhooley as president and CEO

Volume-related discounts applied to exchange trades, non-exchange trades and online settlement

CDS Clearing welcomes Chi-X Canada as a new source of exchange trades into CDSX

CDS Release 1 (2008)

CDS's IT division completes connectivity testing and implementation with its offshore development partner as part of its onshore/offshore development strategy



Matched Institutional Trade Interface begins settling trades from Omgeo CTM, a virtual matching utility

CDS Release 4 (2007)



CDS joins Investment Industry Association of Canada (IIAC) as an affiliate

Dividend Eligibility Reporting subscription service launched

Mutual Fund Limited Partnership Tax Breakdown subscription service launched

CDS Limited publishes its Canadian Securities Administrators National Instrument 58-101 Disclosure of Governance Practices

> Throughout the year, **we exhibited leadership, innovation and responsiveness** as we utilized our skills to the tasks at hand.





Ian A. Gilhooley, President and Chief Executive Officer

President's message

On behalf of the board of directors and the management and staff of The Canadian Depository for Securities Limited (CDS[®]), I am pleased to present the 2008 Annual Report with financial statements and information on our operations for the period November 1, 2007 to October 31, 2008.

Putting our expertise to work – that was the mantra for CDS in 2008. Our ability to apply our expertise to the unexpected was never more apparent than in 2008, whether responding to market volatility, processing unprecedented volumes, reacting quickly to the unfolding asset-backed commercial paper (ABCP) crisis or responding to changing withholding tax requirements. Throughout the year, we exhibited leadership, innovation and responsiveness as we utilized our skills to the tasks at hand. While dealing with the unexpected, we also sustained our traditional reliability, integrity and accuracy in the operation of our core clearing and settlement business and in the services

that we provide to the Canadian Securities Administrators (CSA). We started the year with substantially reduced prices from the previous year and then provided sizable volume price discounts throughout the year to our participants. As a result of record volumes and outstanding expense management we were also able to provide a \$6 million rebate at year-end.

On September 18, 2008, CDS Clearing and Depository Services Inc. (CDS Clearing) set a new record of 1,587,314 exchange trades processed in a single day. That was 50 per cent higher than the previous record set in August 2007. Over the fiscal year, we processed an average of 720,000 exchange trades per day, compared with 479,000 in fiscal 2007 – again a 50 per cent increase. The trend is continuing upwards. In October 2008, the last month of the fiscal year, CDS Clearing averaged more than one million exchange trades per day. Though our exchange trade volumes were up, the credit crisis did negatively impact some business lines at CDS Clearing. The entitlements business was down two per cent in terms of the number of corporate actions processed and 20 per cent in terms of value processed. Both our depository business and international business also declined in 2008.

For the second year, we engaged Thomas Murray, a specialist custody rating, risk management and research firm, to evaluate CDS. In 2007, we scored an AA rating for CDS Clearing's settlement, safekeeping and asset servicing operations. No other depository clearing organization in the world had a higher rating. In 2008, CDS Clearing retained its AA rating over all but improved its operational risk score to AA+; a direct result of a concentrated effort in a number of areas to further reduce operational risk.

At CDS INC., ongoing enhancements to the System for Electronic Document Analysis and Retrieval (SEDAR®) and the System for Electronic Disclosure by Insiders (SEDI®) were undertaken and Phase I of the Registration Reform Project (RRP) of the National Registration Database (NRD®) was completed while meeting all operational service deliverables. In 2008, CDS INC. reached an agreement with the CSA for a contract extension to continue to operate SEDAR, SEDI and NRD until October 31, 2011.

CDS Innovations Inc., in concert with CDS Clearing, introduced the Dividend Eligibility Reporting subscription service in time for the 2007 tax year and followed that up with the successful launch of the Mutual Fund and Limited Partnership Tax Breakdown subscription service. CDS Innovations has also played a lead role in developing a new International Securities Identification Number (ISIN) issuance process that will be launched in early 2009.

One of the main priorities at CDS in 2008 was the formation and articulation of our three-year strategy. The strategy confirms and expands on the existing two-prong strategy that

has been in effect at CDS for several years. This two-prong strategy consisted of an operational strategy to ensure world-class operations that provide value to our participants and a growth strategy to address our participants' evolving needs and their global competitiveness. CDS's strategy has been refined to focus on four critical areas:

Productivity improvements – commitments to reduce prices by 15 per cent over three years; to focus on customer service and participant needs; to develop internal operational efficiencies; to enhance the application of technology; and to increase revenue from our existing lines of business.

Expansion of asset services – working with industry and regulatory bodies to build a central hub of entitlement information; implementing additional ISO 15022 messaging for straight-through processing (STP) delivery of entitlement information; and developing tax information services.

Expansion of issuer services – directly interfacing with issuers via the Internet; and working with the transfer agent sector to produce capital market efficiencies.

Expansion of international services – adding new depository links to support the expansion of markets for Canadian issues.

The goal of the three-year strategy is to service the evolving needs of CDS's stakeholders and to contribute to lower unit costs within the Canadian securities industry. Supporting the strategy is the concept of CDS as a technology-driven organization and as a generator and disseminator of data products. This is a reflection of CDS's vision statement "To be the world's standard for depository and securities information services."

Of particular note with the new strategy is that all three operating companies (i.e., CDS Clearing, CDS INC. and CDS Innovations) share the same strategic goals and are aligned with the same four critical areas, giving ample opportunity to capture the synergies that exist between the companies and build on them going forward.

A new strategy, record volumes, operational excellence, innovative new products – CDS accomplished much in 2008, all with the help of its dedicated team of employees, the support of its customers and participants, and the guidance of its stakeholders and board of directors. CDS will continue to apply its expertise in the coming years and continue to set the standard for depository and securities information services.



Ian A. Gilhooley
President and Chief Executive Officer

SECURITIES DEPOSITORY/CUSTODIAL/ ENTITLEMENT SERVICES

As Canada's central depository for securities, CDS Clearing offers a comprehensive range of depository, custodial and entitlement services including:

- > **Account Transfer Online Notification (ATON™)** – a real-time, automated service that reports and confirms account transfer information between two financial intermediaries
- > **Custodial services** – safekeeping for depository-eligible domestic and international securities in both physical certificate and electronic form
- > **Entitlement services** – the collection and dissemination of entitlement data and annual processing of about \$4.4 trillion in principal payments, dividends, interest and other entitlements
- > **Strip bond services** – services to strip or separate securities, especially bonds, into their component parts (principal and interest)
- > **Tax services** – managing the withholding tax process for Canadian securities held at the Depository Trust & Clearing Corporation (DTCC) on behalf of U.S. institutions.

U.S. 1042-S WITHHOLDING TAX REPORTING

Under the regulations of the U.S. Securities and Exchange Commission (SEC), CDS Clearing is required to offer withholding tax services on U.S. source income distributions and provide recipients and the U.S. Internal Revenue Service (IRS) with an annual summary of these withholdings on a 1042-S form. Following a request from CDS's Strategic Development Review Committee (SDRC) Entitlements Subcommittee and the IIAC, at the end of 2007, CDS Clearing introduced enhancements to its 1042-S reporting services allowing for more frequent reporting in a standardized, automated format. The new reporting is done on a monthly basis and assists participants with the internal reconciliation of withholding and reporting to their clients.

CDS Clearing retains AA rating from Thomas Murray

In July 2008, Thomas Murray, a U.K.-based, global rating provider granted CDS Clearing an AA rating as a central securities depository (CSD), recognizing CDS Clearing's ongoing commitment to minimize risk for market participants. Although the overall rating has remained unchanged from last year, the operational risk rating was upgraded to AA+, because of the significant progress made in mitigating risk. CDS Clearing accomplished this by expanding the scope of its Canadian Institute of Chartered Accountants (CICA) 5970 audit to include risk management, upgrading computer hardware to increase reliability, processing speed and capacity, and enhancing business continuity arrangements.

According to Simon Thomas, CEO and chief ratings officer of Thomas Murray, "CDS remains one of the top rated CSDs in the world. The strength of CDS confirms the excellence of Canada's capital market infrastructure. The rating reflects the confidence the Canadian market has in CDS's complex and sophisticated risk model which has proved robust during periods of market volatility during the past year."

Asset servicing risk	AA-
Operational risk	AA+
Financial risk	AA
Counterparty risk	AA
Liquidity risk	AA
Asset commitment risk	AA+
Overall rating	AA

- > According to Simon Thomas, CEO and chief ratings officer of Thomas Murray, " ...The rating reflects the **confidence the Canadian market has in CDS's complex and sophisticated risk model** which has proved robust during periods of market volatility during the past year."