

The Depository Trust Company

IMPORTANT

B#: 3765-08

DATE: July 25, 2008

TO: All Participants in the Canadian Link Service

CATEGORY: Asset Servicing

FROM: Daniel Thieke

ATTENTION: All Participants

SUBJECT: Asset Servicing for Canadian Link Service

In 2006, The Depository Trust Company (“DTC”) established a “northbound” link to support valued transactions settled in Canadian dollars with CDS Clearing and Depository Services Inc. “CDS”, the national central securities depository of Canada. This settlement link allows DTC participants to settle Canadian dollar transactions directly within DTC’s settlement system.

On July 28th, DTC will implement additional asset servicing capabilities covering Canadian dollar payments on all corporate action events and automated some of the existing processes. With this new functionality, DTC has enhanced the settlement reporting of Canadian dollar activity. Participants have the option of choosing either USD or CAD on all dividend, reorganization and redemption activities and it is not necessary to reposition inventory in preparation for corporate action events.

Canadian Dollar Interest and Dividend Processing

Currently, for interest and dividends payments declared in Canadian currency, participants are able to elect to receive payments in Canadian dollars using the existing DTC Elective Dividend Service functionality. In addition, DTC’s Elective Dividend Service (EDS) makes it possible for qualifying beneficial owners to obtain tax relief “at-source” meaning participants can receive income payments net of the most favorable tax rates for which their customers are entitled. (For more information on DTC’s tax service, please see DTC’s Tax Service Product Guide available at www.dtcc.com.)

In order for Canadian dollar entitlement payments to be paid via DTC's Canadian dollar settlement system, Participants must complete a Canadian Currency Eligibility Form (Exhibit 1 in the Canadian Link Service Guide) and return the completed form to their DTCC Relationship Manager. Canadian dollar interest and dividend payments made via DTC's settlement service are displayed on the DTC Canadian dollar participant settlement statement as code 87 activity.

DTC's Canadian Link Service does not support income tracking on cross border Canadian dollar transactions. That is, the income payments associated with securities that have been "loaned" or "repurchased" will not automatically be credited to the correct party. Instead, the holder of record in DTC or CDS will be paid any income payments.

Canadian Dollar Corporate Action Processing

Participants will be given an option to receive Canadian dollars on corporate action events that offer a Canadian dollar option. For mandatory and voluntary Canadian corporate actions, DTC will announce a Canadian dollar option (if available) via the DTC PTOP system. Participants would be given an option to receive:

- US dollars
- Canadian dollars directly from an agent (if available)
- Canadian dollars paid via DTC's end of day Canadian dollar settlement service

Participants wishing to receive Canadian dollars via DTC must enter their instructions using a predetermined Canadian dollar contra CUSIP (the Canadian dollar contra CUSIP will be defined in the original PTOP announcement) and verify that they are eligible to receive Canadian dollars via DTC, i.e., that they have signed up for the Canadian Link Service.

Canadian dollar corporate action payments made via DTC's dollar settlement service are displayed on the DTC Canadian dollar participant settlement statement as code 87 activity and will include the CUSIP and Voluntary Offering Instruction (VOI) number associated with the payment election.

Canadian Dollar Rights and Warrants Processing

Instructions for Canadian Dollar processing for all reorganization rights will be done using the PSOP function and be displayed with a code 59.

When a user attempts to submit an instruction into the PSOP function, the RAMS Foreign Currency Code will be checked for the envelope. If the envelope is for Canadian Dollar processing, the participant ID will need to be verified to determine if they are eligible for CDS processing. This will be done by checking the EDS table for CDS Co-Depository Participation.

If the participant is not eligible, an error message will appear and the instruction will not be allowed. This check will be needed for original instructions, protects, and covers of protects submitted directly to the agent, and for instructions for the selling of rights.

Instructions for Canadian Dollar processing for all reorganization warrants will be done using the WARR function and be displayed with a code 60.

When a user attempts to submit an instruction into the WARR function, the RAMS Foreign Currency Code will be checked for the envelope. If the envelope is for Canadian Dollar processing, the participant ID will need to be verified to determine if they are eligible for CDS processing. This will be done by checking the EDS table for CDS Co-Depository Participation.

If the participant is not eligible, an error message will appear and the instruction will not be allowed. This check will be needed for original instructions, protects, and covers of protects submitted directly to the agent. This will also be done for custody processing.

Because warrant subscription processing results in the collection of funds from participants, an additional edit check will be required for Canadian Dollar items in order to verify that the processing date falls on a valid Canadian business day. The Toronto business day calendar will be checked to determine if the current day is a Canadian business day. If it is not, an error message will be displayed and further processing will not be allowed for the selected item.

Canadian Dollar Redemption Processing

Instructions for Canadian Dollar processing for all Redemption events, with the exception of Rights and Warrants, will be done using the PTOF function and be displayed with a code 52.

When a user attempts to submit an instruction into the PTOF function, the RAMS Foreign Currency Code will be checked for the envelope. If the envelope is for Canadian Dollar processing, the participant ID will need to be verified to determine if they are eligible for CDS processing. This will be done by checking the EDS table for CDS Co-Depository Participation.

If the participant is not eligible, an error message will appear and the instruction will not be allowed. This check will be needed for original instructions, protects, and covers of protects submitted directly to the agent.

If the participant is eligible, instruction processing will continue in the same manner as current PTOF instruction processing. When the user is prompted to confirm or cancel the instruction, the message will include the information that the instruction will be for Canadian Dollar Processing.

P& I / Entitlements Output

Participants are able to elect to receive income and other entitlement payments on their Canadian positions paid in Canadian dollars for entitlements declared in Canadian currency. These entitlement payments are posted to participants' Canadian dollar settlement balances in the CDL system. Participants are able to view the details (CUSIPs & payment amounts) on the Activity Balances screen in the CDL system. Canadian dollar entitlement payments will have an activity code 84 for reorganization payments, 87 for dividend payments and 88 for redemption payments in the CDL system.

Projected payments and allocations for anticipated Canadian dollar transactions can now be viewed via the SDAR function, under Option 4 (Foreign Currency Allocations). Participants can view both allocated and unallocated items at the activity and CUSIP levels throughout the day.

In addition, DTC produces three SMART/Search reports to allow participants to monitor Canadian dollar interest and dividend payments. These reports are:

- The “Canadian Expected Allocations” report allows participants to monitor pending payments prior to payment date.
- The “Canadian Allocations Report” report allows participants to view Canadian dollar interest and Dividend payment details on payment date
- The “Canadian Reorg Allocations” report allows participants to view funds paid on corporate actions in Canadian dollars

Training

For more information on how to use the service, please review the series of simulations now available at the following site:

https://dtcc.knowledgeplanet.com/content/ss/sims/canadian_settlement/DTCCanadianSettlement_index.html

For those participants that are already part of the Canadian Link Service and are interested in participating in the Asset Servicing feature as well, please contact John Casalino at 212-855-5683 (jcasalino@dtcc.com).

For those participants who have not signed up for the Canadian Link Service but would like to please contact Julie Krill at 212-855-5906 (jkrill@dtcc.com) or John Abel at 212-855-8434 (jabel@dtcc.com) or your DTCC Relationship Manager.