



Thomas Murray Affirms the Central Securities Depository Rating for CDS Clearing and Depository Services Inc. at 'AA'

Thursday 1st December, 2011

PRESS ANNOUNCEMENT

LONDON - Thomas Murray, the specialist custody rating, risk management and research firm has affirmed the CDS Clearing and Depository Services Inc. (CDS) rating as 'AA' which represents very low risk overall. The rating is made up of the following components:

CSD Rating	Overall Rating	Asset Commitment Risk	Liquidity Risk	Counterparty Risk	Financial Risk	Operational Risk	Asset Servicing Risk
CDS Rating:	AA	AA+	AA	AA	AA	AA+	AA-

The 'AA' rating as assigned by Thomas Murray recognises CDS's ongoing commitment to minimise risk for market participants. In particular, CDS undertakes regular stress testing of their sophisticated credit risk model, in order to protect participants against the risk of default of their counterparties. The model is based on loss-sharing arrangements designed in a way in which the defaulter's collateral is sufficient to cover its obligations in the vast majority of cases. Both CDS's settlement processes and credit risk model have proved robust during recent periods of financial instability.

The outlook has been assigned as 'Stable' which suggests that there are no imminent developments that may change the rating at this stage.

During the past year CDS has introduced a number of changes which have further improved efficiency and reduced risk. Notable actions undertaken by CDS are:

- CDS introduced a real-time continuous net settlement (CNS) facility for CNS trades to allow for settlement of these trades throughout the day
- CDS introduced several on-going measures in 2010 to support the achievement of full dematerialisation by 2014. As a result of these measures CDS has reduced the number of physical securities in the vault from 210,000 to under 57,000 as at October 2011
- The comprehensive Canadian Institute of Chartered Accountants (CICA) 5970 audit for 2011 was completed without any major issues raised. Such annual audits provide a high level of assurance that the appropriate controls and procedures are in place
- CDS has further strengthened its risk identification and associated processes and procedures review framework which engages the respective business operations, risk committee and auditors. This has been supported by the provision of additional risk awareness training for staff and the adoption of clear risk objectives

- CDS upgraded its network which has many in-built redundancy features including monitored excess capacity targets, multiple access points to the building, and strong support arrangements. The support, capacity and other redundancy features of the systems have been maintained at a very high standard
- CDS has maintained a key role in the financial infrastructure, adapting its system to provide the transaction capture and settlement functions for the new clearing facility and central counterparty (CCP) for repo transactions to be operated by CDCC
- CDS conducts semi-annual testing of both its business continuity plan and disaster recovery (DR) arrangements. The most recent DR test in September 2011 included major participants and verified that CDS and its participants maintain a high standard of readiness for unexpected Disaster Recovery events
- CDS was able to provide price discounts in 2011. CDS's exposure to operational claims is limited by the terms and conditions of its rules. Other subsidiaries of The Canadian Depository for Securities Limited (CDS Inc. and CDS Innovations Inc.) all remain profitable
- CDS has secured a large committed credit facility which is adequate to meet CDS's unforeseen liquidity requirements across its business in all but very exceptional events.

CDS has strong governance arrangements that support the public interest borne out by their commitment to system development, the return of profits by way of fee reductions and/or fee rebates to its participants, transparency in its operations as demonstrated by the inclusion of participant representatives in the Risk Advisory Committee and other key committees constituted to consider system development opportunities, and the inclusion of five independent directors on its board.

Simon Thomas, CEO and Chief Ratings Officer of Thomas Murray said when announcing the Central Securities Depository (CSD) rating of CDS Clearing and Depository Services Inc., "CDS adopts an approach of continual review and improvement in all aspects of its operations which is transparent to its participants and the regulators. I am delighted to see that CDS undertakes regular stress testing to confirm the robustness of their model and additionally CDS has completed a comprehensive review of their risks, processes and procedures which is periodically necessary to ensure the resilience of controls and reduce operational risk. The strength of CDS confirms the excellence of Canada's capital market infrastructure and the 'AA' rating of CDS, one of the top ratings assigned by Thomas Murray, reflects the ongoing confidence the Canadian market has in CDS."

Ian A. Gilhooley, President and CEO of The Canadian Depository for Securities Limited said, "CDS has been working with Thomas Murray for a number of years and is pleased to place our sophisticated risk management model under independent scrutiny. The rating at 'AA', the highest given to any depository, is a reflection of our commitment to minimise risks in the Canadian capital markets and demonstrates the enormous effort that we have put into our developments and risk reduction initiatives over the past years."

The CSD rating assesses the risk exposures for investors associated with the processes the CSD has in place to facilitate the safekeeping and the clearing and settlement of securities, where applicable. It assesses six key risks. The methodology considers the capabilities of the depository and the quality and effectiveness of its operational infrastructure. It also assesses the depository's willingness and ability to protect its participants or clients from losses. As part of the rating, the scope and quality of the depository's services is assessed. The ratings are on a consistent global scale, using the familiar 'AAA' to 'C' ratings scale. Once the rating is assigned there is an ongoing surveillance process to monitor the depository.

Separately, Thomas Murray maintains proprietary assessments of over 130 CSDs globally as part of the Thomas Murray Depository Risk Assessment services. These reports are available via Thomas Murray at www.thomasmurray.com.

 [Click here to view the Public CSD Rating for Canada's Clearing and Depository Services Inc.](#)

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About Thomas Murray

Thomas Murray is a specialist custody rating, risk management and research firm specialising in the global securities services industry. Thomas Murray was established in 1994. The company tracks and analyses over 250 custodians globally and monitors the risk of over 100 capital market infrastructures. The company has a strong position as a provider of public and private ratings and risk assessments on global custodians, domestic custodian banks and capital market infrastructures.

www.thomasmurray.com

About CDS Clearing and Depository Services Inc.

CDS Clearing and Depository Services Inc. (CDS) is Canada's national securities depository, clearing and settlement hub - supporting Canada's equity, fixed income and money markets, holding almost CAD 4 trillion on deposit and handling over 350 million domestic and cross-border security trades annually. CDS is a subsidiary of The Canadian Depository for Securities Limited "a valued partner to securities market participants, providing reliable, cost-effective depository, clearing, settlement, regulatory and information services. CDS delivers innovative, value-added solutions that help stakeholders maintain a competitive capital market in Canada and build a strategic global advantage.

www.cds.ca

