

The background of the slide is a photograph of a modern building's metal framework, viewed from a low angle looking up. The structure consists of a complex grid of dark metal beams that recede into the distance, creating a strong sense of perspective. The sky is a clear, bright blue with some light, wispy clouds.

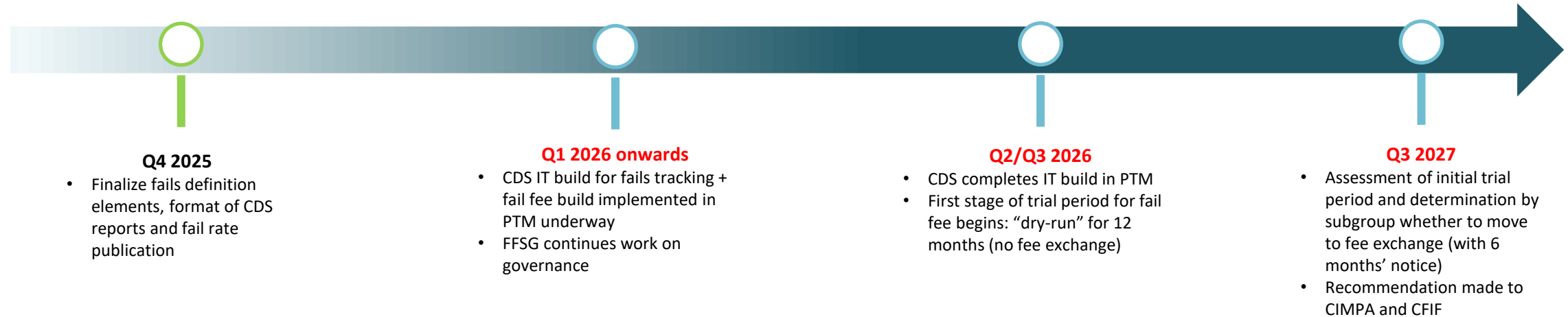
CIMPA Fail Fee Subgroup

April 16, 2026

Fail Fee Best Practices

- ❖ 1. Market participants should avoid any strategies that create or exacerbate settlement fails
- ❖ 2. Market participants should apply the fail fee broadly to non-DvP transactions as well via a bilateral claims process
 - GMSLA/MSLA language is being interpreted to support
- ❖ 3. Partial settlements should be prioritized, when feasible.
- ❖ 4. Robust internal controls to protect against fails should be in place.
- ❖ 5. No MTA should be in place for bilateral claims
- ❖ 6. Dispute claims should be handled bilaterally and in good faith.
 - Group discussing if concise statement or process should be laid out for dispute resolution
- ❖ 7. Tax implications of the fails charges will vary across firms and institutions, and each participant should consult with its own tax advisors.
 - Discussions ongoing with tax representatives on how fail fee income is treated and what would trigger withholding tax

Timeline for fail fee trial period and specific Subgroup tasks



Prep Phase

Tasks

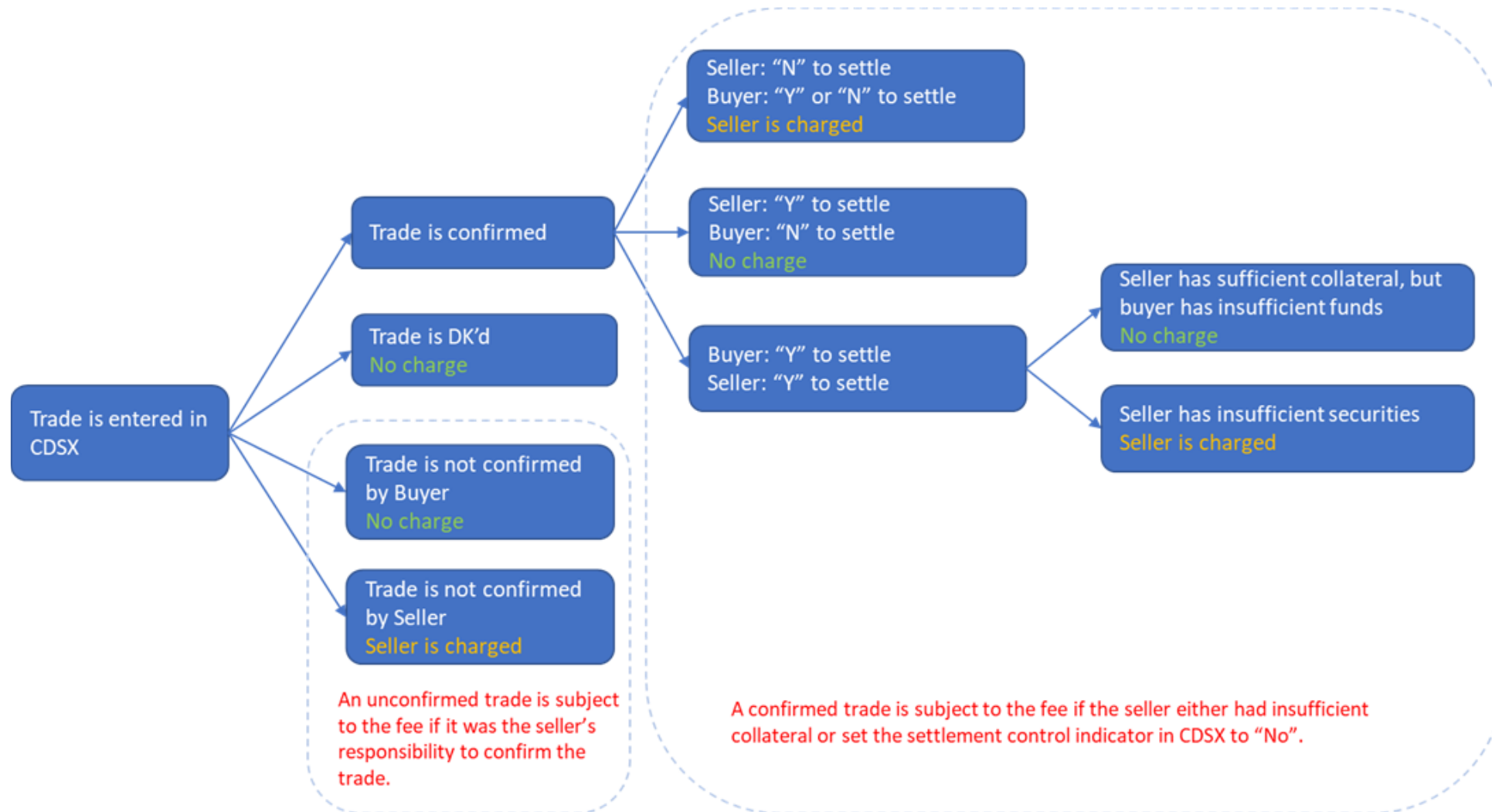
- Finalize subgroup membership
- Review fail definition (exclude USD trades)
- Review/refine elements of proposed CDS fails report for completeness
- Decide on format of CDS public fails reporting

Build and Dry-run Stage of Trial Phase

Tasks

- Get updated cost estimates from CDS
- Set up BoC website for the fail fee and Bloomberg Index
- Finalize calibration of dynamic component threshold
- Investigate potential tax implications of fail fee payments to non-Canadian entities
- Develop and publish associated best practices, incl.
- Work with CDS/OSC on CDSX rulebook changes
- Produce a report reviewing the Dry-run Stage and recommend whether to proceed with fee exchange

Definition of Fail Fee



CDS Administrative Fee

- ❖ Fee is a function of administrative pass-through to cover development, implementation and operation costs for FTD fee model and framework
- ❖ Admin fee incorporated into participants CDS billing and invoiced by TMX Finance on annual basis
- ❖ The amount allocated and billed to CDS participants will be on a proportional basis, based on number of BPIDs ie CUIDs that were party to at least one GoC securities trade within past billing period
- ❖ Cost of initial build is estimated \$540k recovered over next 3 years
- ❖ Ongoing operating cost is est \$100k adjusted for inflation

Next Steps

- ❖ Finalize and publish Best Practices
- ❖ Investigate and clarify tax treatment on fail fees
- ❖ Discuss options for partials with custodians
- ❖ Work with CDS on rule book changes
- ❖ Launch Phase 1 in Q3