CIMPA Fail Fee Subgroup

CANADIAN FIXED INCOME FORUM | CIMPA

June 18, 2026

Agenda

1. Update on CDS infrastructure build and implementation timeline
   – Any showstoppers for the proposed timeline?
2. Go over draft best practices document
   – Request comments from CIMPA members by July 3
3. FYI: Q&A for trial period

Proposed timeline for fail fee trial period

End-June 2026
- CDS finalizes testing of its fail fee infrastructure build
- Public comment period on CDS fee changes closes

July 2026
- CDS and BoC release joint market notice setting a start date for the trial period
- Minimum notice: 2 weeks (likely 4 weeks)
- Release also includes shortened CDS technical document and trial period Q&A
- Onboard CIMPA comments on BPs and send to CFIF for review

Aug/Sep 2026
- First stage of trial period for fail fee begins: "dry-run" for 12 months (no fee exchange)
- CDS will provide public transparency and fail reports/sample invoices to members
- CFIF-endorsed best practices released

Q3 2027
- Assessment of initial trial period and determination by subgroup whether to move to fee exchange (with 6 months' notice)
- Recommendation made to CIMPA and CFIF

Dry-run Stage of Trial Period

Ongoing tasks for the FF SG during the Dry-run Stage
- Finish investigation of potential tax implications of fail fee payments to non-Canadian entities
- Draft TMPG-style "template document" for bilateral fail fee claims
- Finalize calibration of dynamic component threshold
- Conduct market outreach and produce a report reviewing the Dry-run Stage and recommend whether to proceed with fee exchange

Do members see any showstoppers for the proposed timeline?

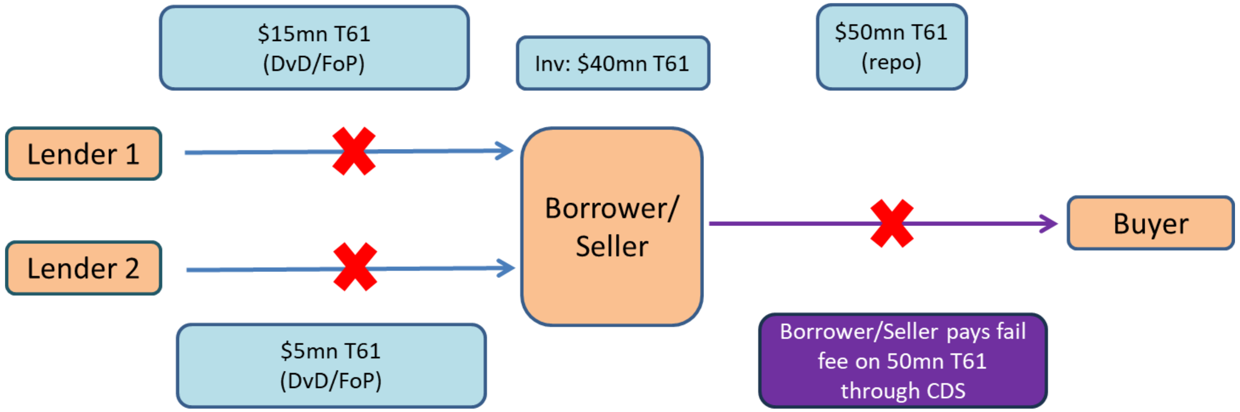
BP 1: Avoid behaviours that create or exacerbate settlement fails.

- E.g., don’t hold back deliveries or payment until immediately before any cut-off time, be diligent in addressing persistent settlement fails.
- Avoid imprudently on-selling securities if you don’t think you can deliver.
- Don’t delete or DK a trade for the sole purpose of avoiding a fail fee.

BP 2: Robust internal controls to protect against fails should be in place.

- Establish internal operational processes to generate automated alerts to flag trades that have not settled by a specific time.
- Maintain up-to-date contact details for all their counterparties across all relevant front-, middle-, and back-office functions.

BP 3a: Partial settlements should be prioritized



Until technical solutions are available for automatic partial settlements:

- Borrowers/sellers should look to source the remainder elsewhere (i.e., in the example, the seller should source $10mn elsewhere to cover the delivery of the full $50mn in the repo).
- If that is infeasible, the borrower/seller should attempt a partial delivery, if the counterparty agrees (e.g., deliver the $40mn the borrower/seller has in inventory in the example). Partial requests should be made early and custodians should similarly facilitate partial settlements and communicate promptly with their clients.
- Partial settlements should be attempted irrespective of the size of the trade. The original trade should be deleted or DK'd, so that only the unsettled remainder incurs a fail fee.

BP 3b: Fails associated with non-DvP transactions should also be subject to bilateral fail fee claims to ensure a level playing field

- To avoid an uneven playing field, market participants should apply the fail fee to non-DvP transactions as well via a bilateral claims process.
- In the previous example, this eliminates any uncertainty about how much and from whom to claim a fail fee payment, and whether any proof of the fail would need to be furnished.
  - Even though the fail fee charged by CDS will only be on the $50mn repo fail, the borrower/seller should be able to claim the fail fees associated with both the $15mn and the $5mn securities lending fail; to the extent that Lenders 1 and 2 also experienced incoming fails, they would also be able to claim them from their counterparts.
- GMSLAs allowing a failed-to party to a fail fee if the counterparty fails to return a borrowed security. Counterparties wishing to enable bilateral fails claims under both an MSLA and a GMSLA are encouraged to add annexes to their agreements. CIMPA will also provide a template for market participants intending to use the bilateral claims process.
- CIMPA expects that market participants will handle claim disputes bilaterally and in good faith.