Ontario Financing Authority
1 Dundas Street West
Suite 1400
Toronto ON M7A 1Y7

Office ontarien de financement
1 rue Dundas ouest
Bureau 1400
Toronto ON M7A 1Y7

Ontario

Phone: 416-325-8000

Stephen Nagy, Managing Director, SIES
CDS Clearing and Depository Services Inc.
85 Richmond Street West
Toronto, Ontario M5H 2C9

By Email: snagy@cds.ca

August 12, 2016

Dear Mr. Nagy,

Re: Notice and Request for Comments – Proposed Amendments to CDS Fee Schedule re: Entitlements & Corporate Action Events Management

The Ontario Financing Authority (OFA) has reviewed CDS's proposed fee amendments for Entitlement & Corporate Action events (the "E&CA Services") and has a number of concerns it would like to raise with CDS.

On June 9, 2015, the OFA submitted a number of questions to CDS, which included a detailed analysis of CDS's responses to the Summary of Public Comments. While the original November 2014 Notice has been revised, to date CDS has not committed to answering any of these questions in writing, and the OFA believes that many of these questions remain pertinent under this new proposal and need to be addressed. Until such time as the OFA obtains clear and comprehensive responses from CDS regarding this matter, it will not be possible for the OFA to support the E&CA Services fee proposal.

E&CA Services

The OFA recognizes that CDS has a mandate of offering multi-asset class services and needs to maintain and modernize its technology infrastructure. However, the Province of Ontario's securities are predominantly plain-vanilla debt obligations with fixed or floating interest payments. While it may be an accurate statement that some issuers create new and innovative securities, government issuers should not bear the cost of system developments from which they will derive minimal benefit.

As previously raised with CDS, the OFA maintains the view that CDS's proposed event management fees are excessive and do not align with those of other international clearing and settlement systems. The comparative study provided by CDS does not present a fulsome picture of the costs that would be incurred by issuers under this proposal, nor does it allow issuers to precisely understand how CDS will apply these fees. Furthermore, we believe CDS is seeking significant compensation from public sector issuers for processes and transactions that are largely automated and electronically matched in the CDS system. Regulators need to ensure that the fee model is commensurate with the level of work performed by CDS and the services rendered to government entities. We also question the appropriateness of CDS 'double charging' participants and issuers for the same events in the CDS system.

Debt Grandfathering Provision for Government Issuers

The OFA appreciates CDS's proposal not to apply E&CA Services fees retroactively to existing debt lodged with CDS. Nevertheless, in order to offer additional protection to all parties from any potential future changes to this proposal, the OFA believes that a grandfathering provision should be included in existing contractual agreements as well as in this Notice and Request for Comments. Specifically, a grandfathering provision should be included in the rider agreements to the standard Book Entry Only Securities Services Agreement ("BEO SSA") negotiated by a number of Canadian government entities with CDS in 2009, which would provide additional clarity that this proposal will not apply to all securities that are outstanding prior to the effective implementation date of all successive new fee proposals.

20% Up-front Discount

CDS's proposal to offer a 20% up-front payment discount on fixed term securities may under certain circumstances be appealing, but again, the OFA believes that this proposal should be included in existing contractual agreements in addition to this Notice and Request for Comments in order to offer additional protection to all parties from any potential future changes to this proposal.

It is important that CDS also specifies a procedure to refund issuers if a security is retired prior to its maturity date without explicitly containing complex callable or early redemption features. Specifically, CDS should reimburse government issuers on a pro-rata basis to reflect the term/life of the security in CDS systems. For example, if the Province paid an up-front fee for a 40-year security, in the event the bond were retired after 15 years, the Province would expect a reimbursement for 25 years of entitlement payments which did not take place. CDS states that "*Changes to the security prior to maturity may result in additional charges.*" It would be helpful to understand what these "additional charges" are and their costs.

Retail Debt -Ontario Savings Bonds ("OSBs")

The Province makes available to Ontario residents retail debt in low denominations of $100. In special circumstances, the Province permits the early redemption of OSB products in order to accommodate investors.

There remains a lack of clarity in terms of how CDS proposes to apply certain event management fees and CDS has offered no guidance on this. For example, a special redemption of $100 from an OSB investor of a single product who is experiencing financial hardship could trigger a $250 fee ("Event management-With choice" Code 4778). This type of fee scenario is unreasonable for retail products, which are similar in nature to deposit products. Subject to a minimum transaction threshold of $10,000 per ISIN, CDS should consider waiving event fees for retail products. Given that the Province processes several of these redemptions per week across multiple OSB products, the fee level charged by CDS should not exceed the principal value of the redemptions in order for these fees to be justifiable.

Conclusion

It remains the OFA's view that applying E&CA Services fees without recognizing the unique position of government issuers in the Canadian market may result in the public sector indirectly subsidizing the modernization of CDS's technology infrastructure so that CDS is "*able to* *continuously improve services to issuers who continue to create new and innovative securities."* CDS has already taken steps to create a 'Government Participant Category' (although we note there are presently no government participants in CDS), yet the various agreements presented to the Province to date do not reference the Government Participant Category and appear identical in nature to the agreements that would apply to any CDS participant. If CDS wishes to make use of the Government Participant Category, the various agreements and applicable rules should reflect the unique position of government issuers, which should include a unique fee schedule and rider to the BEO SSA.

CDS has conveyed to the OFA its intent to harmonize documentation related to the BEO SSA by creating a Sovereign Rider, applicable to all provincial and municipal issuers across Canada. However, to date, CDS continues to engage in individual negotiations with various government sector stakeholders which may result in inconsistent treatment of government issuers. There should be no variation between the riders of public sector entities. CDS should reconsider its current course of negotiating issuer-specific riders and introduce a Sovereign Rider applicable to the entire government sector. This would include ensuring there is an acceptable and impartial escalation procedure in place in the event of a disagreement between government issuers and CDS.

Should you have any questions or concerns regarding these comments, please do not hesitate to contact the undersigned.

Kind regards,

Gadi Mayman, CEO
Ontario Financing Authority

cc.

Me Anne-Marie Beaudoin
Secrétaire générale
Autorité des marchés financiers
800, square Victoria, 22e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3
Télécopieur: (514) 864-6381
Courriel: consultation-en-cours@lautorite.qc.ca

Manager, Market Regulation
Market Regulation Branch
Ontario Securities Commission
Suite 1903, Box 55,
20 Queen Street West
Toronto, Ontario, M5H 3S8
Fax: 416-595-8940
e-mail: marketregulation@osc.gov.on.ca

Doug MacKay
Manager, Market and SRO Oversight
British Columbia Securities Commission
701 West Georgia Street
P.O. Box 10142, Pacific Centre
Vancouver, B.C. V7Y 1L2
Fax: 604-899-6506
Email: dmackay@bcsc.bc.ca

Bruce Sinclair
Securities Market Specialist
British Columbia Securities Commission
701 West Georgia Street
P.O. Box 10142, Pacific Centre
Vancouver, B.C., V7Y 1L2
Fax: 604-899-6506
Email: bsinclair@bcsc.bc.ca

Mike Manning
Executive Director, Capital Markets Division
Ontario Financing Authority
Email: mike.manning@ofina.on.ca