



CANADIAN SECURITY TRADERS ASSOCIATION, INC.

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Wayne S.M. Ralph

Chief Operating Office

CDS Clearing and Depository Services Inc.

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RE: CSTA's comment on the proposed significant change to eliminate CDS fee rebates and proposed amendments to eliminate network connectivity fees.

Dear Mr. Ralph,

The Canadian Security Traders Association, Inc. (CSTA) thanks you for the opportunity to comment on CDS' recent proposal to eliminate fee rebates and network connectivity fees.

In December the TMX Group proposed a series of changes to CDS' fee, including a permanent removal of dealer rebates, in order to finance replacement of the existing CDSX mainframe technology system. The proposal states that CDS requires the dealers to forgo their annual rebates, which current represent roughly \$10 million per year, in order to ensure that CDS can deliver the technology refresh while maintaining a reasonable internal rate of return on CDS.

By way of quick background, the rebates were implemented during the Maple Group Acquisition of CDS. At that time industry was concerned that allowing the Exchange to vertically integrate the clearing corporation would create an opportunity for the Exchange to use its position to increase fees, and increase profit. In order to ensure this was not the case, the Maple Group offered to cap fees per trade at their current level. Industry pushed back, as the fee per trade had been coming down every year for a decade, arguing that capping at current levels would ultimately result in artificially high fees for the Canadian market. The end result was a rebate mechanism, that allowed industry to receive up to 50% of the efficiencies TMX Group were able to achieve, with a cap. During all of this debate Maple Group and TMX executives repeatedly stated that CDS would improve technology, and that the integration would not lead to reduced levels of service or investment.

While the CSTA fully agrees that Canadian Clearing Technology needs to be robust, in order for our market to remain efficient and competitive, we have a number of concerns about the proposal.

1. The proposal discusses at length the need for CDS to achieve an internal rate of return, without offering up any details around the current, or historic rate of return for the unit. It is impossible for industry to determine if the proposal is fair, if the TMX refuses to share such details.

2. The elimination of rebates would appear to result in the dealer community paying for the entire technology refresh, over its anticipated 15-year life span. This is inconsistent with the statements made during the CDS acquisition. The TMX Group was aware in 2012 of the eventual need to refresh technology, and should have accrued for such a project during that time
3. The TMX attempts to justify the need to eliminate the rebates based on its low clearing fees versus other vertically integrated exchanges. The reason the rebate structure was originally initiated was to ensure that the TMX did not achieve those same excessive fees, which are a friction to efficient trading.
4. The TMX further attempts to justify the proposal by highlighting the elimination of network connectivity fees going forward. However, this fee elimination is a result of a new structure that will transfer network connectivity management from the TMX to the dealers. As such, the dealer community is receiving no reduction in costs.

In conclusion, the TMX appears to be shifting the cost of CDS technology onto its participants, in order to achieve financial objectives that are both non transparent, and at odds with the CDS recognition order. While we appreciate that the TMX Group is a for profit business, and must remain financially viable, the proposed fee changes appear to violate the Maple Acquisition agreement, to the benefit of the exchange at the cost of CDS participants. As such, we strongly object to this proposal being approved.

Thank you for allowing us to comment on this matter. As always, the CSTA is happy to answer any questions or concerns you may have about this letter, or the topic in general.

Yours truly,

Stephane Ouellette
CSTA Chair

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CSTA President

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