INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

11 King Street West, Suite 1600, Toronto ON M5H 4C7
T 416.364.2754 | F 416.364.4861

www.iiac.ca

December 12, 2014

Stephen Nagy
Managing Director, SIES
CDS Clearing and Depository Services Inc.
85 Richmond Street West
Toronto, Ontario M5H 2C9
Email: snagy@cds.ca

Copies to:

Me Anne-Marie Beaudoin
Secrétaire générale
Autorité des marchés financiers
consultation-en-cours@lautorite.qc.ca

Manager, Market Regulation
Market Regulation Branch
Ontario Securities Commission
marketregulation@osc.gov.on.ca

Mark Wang
Manager, Legal Services
British Columbia Securities Commission
mwang@bcsc.bc.ca

Doug MacKay
Manager, Market and SRO Oversight
British Columbia Securities Commission
dmackay@bcsc.bc.ca

RE: Proposed Amendments to CDS Fee Schedule for its Issuer Services Program

The Investment Industry Association of Canada ("IIAC") appreciates this opportunity to respond to the proposed amendments published by CDS Clearing and Depository Services ("CDS") pertaining to fees for services provided to securities issuers (the "Proposal"). The IIAC recognizes the critical role played by CDS in the efficient and sound functioning of Canadian capital markets. It is imperative, therefore, that CDS is sufficiently resourced to effectively carry out its responsibilities and undertake the necessary enhancements to its systems. While generally supportive of CDS' stated intention to address the inherent imbalance between the allocation of costs between CDS stakeholder groups, namely issuers and Participants, IIAC Members have expressed to us several concerns with the Proposal, including the potential for some unintended consequences, and the need for additional clarifications.

IIAC members, and their clients, rely daily on the multitude of services provided by CDS. Securities issuers are another important stakeholder of CDS who also derive considerable value from CDS' services. In principle, therefore, we support CDS' view that its compensation be derived from those using and benefiting from the service. It is critical, however, that CDS strikes an appropriate balance in its revised/new issuer fees such that the fees provide an opportunity for CDS to recoup over a reasonable period its associated costs without disenfranchising issuers from the services of CDS.

We are concerned that a potential unintended downstream consequence of the Proposal could be that issuers choose to avoid these new fees by requiring, for example, their E&CA processing to take place outside of CDS. Our members have over the years advocated for greater market efficiency by using CDS as the central depository for these transactions. Anything that might reverse those efforts would be detrimental to the industry, its regulators and ultimately to end investors. It is difficult for the IIAC to comment on the materiality of the issuer fees proposed given our limited visibility on issuers' price elasticity. While CDS indicates that it has consulted directly with some of the largest Canadian issuers, we suspect it may be smaller and mid-sized issuers who pose the greater risk of abandoning the services of CDS as a result of the additional costs. Further consultations by CDS with this issuer group may be warranted.

The eligibility fees, and late request fees contained in the Proposal may further migrate activity outside the central depository. We also suspect that our members, in their capacity as underwriters or syndicate managers, are those submitting requests for CDS eligibility and not the issuers themselves. This in effect becomes a fee to the Dealer and should be considered in this context for purposes of the approval process. In addition, we assume given the material amount of the late request fee ($2000 - $10,000) it is in large part intended as a deterrent. Placing the entire responsibility for late requests on the issuer (or their underwriter) ignores the many steps and parties involved in the new issue process. A final Prospectus for example can be delayed for a number of reasons including approval by the TMX.

Members have also commented that the relative cost to CDS in providing these issuer services does not seem to be directly correlated to their effort. For example, it would appear that CDS' effort to mature a bond is fifteen times the effort to mature commercial paper ($150/event vs $10/event respectively). This is not our members' experience and worthy of additional clarification from CDS.

We are also concerned that not all issuers may be treated on similar ground under the Proposal. For example, it is unclear whether foreign issuers, in particular the large number of US issuers, that are depository eligible in CDS will be bearing any of these new issuer fees. Also unclear is whether the Bank of Canada and the Provincial governments, representing possibly the two largest groups of securities issuers in Canada, will be captured by the Proposal or whether CDS is limiting its Proposal to corporate issuers only.

The proposed fee schedule, when combined with the transactional information contained in the Proposal, would suggest that CDS will be generating several million dollars annually from the Proposal. We are unclear how this compares to the costs CDS will be incurring for the redevelopment of its Entitlement System. Specifically, what pay-back period will CDS achieve under the Proposal? An abbreviated pay-back period could imply that the fees may be set too high. It is also unclear whether the new Entitlement System is intended to satisfy the needs of both CDS and the TMX transfer agent – Equity Transfer. We would question the appropriateness of issuers who are not clients of Equity Transfer paying for a transfer agent entitlement processing system.

Lastly, we note that CDS is currently compensated for the financial costs of performing these issuer services through existing fees to Participants. If the costs of these services are being cross subsidized by the fees from other services, for example, from clearing and settlement, then it follows that those fees should be reduced to offset the new fees collected from issuers.

Sincerely,

"Jack Rando"

Jack Rando
Managing Director
Investment Industry Association of Canada
jrando@iiac.ca