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Stephen Nagy, Managing Director, SIES
CDS Clearing and Depository Services Inc.
85 Richmond Street West
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By Email: snagy@cds.ca

August 12, 2016

Dear Mr. Nagy,

Re: Notice and Request for Comments – Proposed Amendments to CDS Fee Schedule – Issuance Services

The Ontario Financing Authority (OFA) has reviewed CDS's proposed fee amendments for ISIN Issuance and Eligibility Services and has a number of concerns it would like to raise with CDS.

Security Eligibility Administration Fee

CDS includes in its proposal a fee table that would be applicable to a standard initial public offering transaction for a "corporate issuer", which lists a proposed Eligibility Administration fee of \$475. In as much as this fee would apply to corporate issuers, we understand CDS's assertion that the process of issuing securities requires the contribution and expertise of many individuals and organizations, including CDS's expertise, and that this carries a cost. However, with regard to the Province of Ontario's new issuances (the "Province"), it is not clear that this fee level would be appropriate. CDS's review of the Province's offering documents is very limited, since the Province prepares no prospectus, as it benefits from a number of exemptions under domestic securities law when carrying out its borrowing activities.

The scope of CDS's review of the Province's documents includes inspecting a term sheet prepared by the Province's underwriters containing the economic details of the issuance, verifying that the Book Entry Only security contains the appropriate legend as well as some basic attributes and verifying signatures for evidence of authority for the Province and its fiscal agent. CDS does not interact with, nor does it provide any guidance to the Province with its issuance process, although the Province provides e-mail notices and BEO Acknowledgements to CDS. While the manual transposition of certain details into CDS's systems may warrant a cost, it is difficult to assess what constitutes an appropriate eligibility administration fee without more transparency from CDS. If the \$475 Eligibility Administration fee is intended to be imposed on government issuers, it is the OFA's view that imposing a single fee model could potentially result in government issuers indirectly subsidizing non-government issuers where the limited services performed by CDS for the Province do not warrant the proposed fee level.

Furthermore, it is not clear to the OFA under what circumstances CDS may have the ability to refuse eligibility of the Province's securities. In order to avoid causing any market disruptions, CDS needs to explain more clearly its role in assessing eligibility including circumstances where eligibility could be refused or revoked.

Certificate Fee

The Province appreciates that CDS is proposing to reduce the Book Entry Only securities fee from \$550 per request to \$125 per request, although this reduction is offset with the introduction of the \$475 eligibility fee.

The Province understands CDS's objective of promoting the dematerialization and/or immobilization of securities at CDS, and notes that the objective of immobilization is already achieved via the Book Entry Only securities, of which CDS is the sole registered holder. While the \$125 fee is not prohibitive and may represent the cost to CDS to lodge these securities in its vault, it is the OFA's view that it is not appropriate for CDS to engage in the adoption of 'certificate disincentive fees' or shaping market behaviour by creating punitive fee structures. Government debt issuances are currently represented by immobilized securities in central securities depositories around the world, but the concept of dematerialization, as presented by CDS whereby certificated securities would be fully eliminated and replaced with paperless electronic entries only, is not a market reality nor is such a change expected by market participants.

Late Request Fees

As previously raised with CDS, the OFA's primary concern with the late request fees proposal is the timeline in the context of Canadian government issuers and the market's shift to a T+2 settlement environment in September 2017. CDS is not taking into account that several Canadian government issuers, including the Province, bring new securities to market on a T+3 basis and CDS needs to have in place timelines which do not impose penalties on public sector issuers who come to market quickly under existing debt programs.

CDS currently has a two-step process where the eligibility review cannot be completed until the ISIN is obtained. Compliance with CDS's proposed timelines would necessitate that CDS accelerates the ISIN request fulfilment and eligibility review and lengthen the timeline before late fees are triggered. Although not included in the public notices, CDS has indicated to the Province that ISIN requests should be submitted by 12:00pm (noon) on the trade date in order for CDS to provide the ISIN by 11:00am the next business day. The proposed window would therefore grant as little as 1 hour to the Province's underwriters to submit the eligibility request to CDS and for the Province to deliver a BEO Acknowledgement to CDS once the ISIN is received. This time period is insufficient.

It is important to note that under the existing process, the Province has until the close of business on T+1 to complete the eligibility application and that this will be reduced to 12:00pm (noon) on T+1 under the new proposal. Given that the eligibility request must be completed by 12:00pm (noon) two business days before the closing to avoid late fees, this approach would render it very challenging for the Province to issue domestic debt in the morning on a T+3 basis without incurring late fees, and impossible to avoid late fees for any afternoon issuances. CDS's proposed late fees should be flexible and accommodate the current government practices of issuing new securities on a T+3 basis, regardless of whether a transaction is priced in the morning or afternoon.

We would also appreciate it if CDS could clarify what "additional manual interfaces are often required [for late requests] since some automated process may no longer be used" including a side-by-side comparison of the manual transposition performed by CDS for a 'regular eligibility

review' versus a 'late request' so that the OFA may gain a better understanding of CDS's manual efforts.

It seems logical to us that CDS would consider combining ISIN requests with the eligibility request as it currently does with NHA securities. CDS has not granted access to straight-through processing other than to NHA Issuers. This straight-through processing would allow eligibility requests to be automatically initiated at the same time ISIN requests are made as part of one request. When asked why other Issuers cannot be allowed through the same gate, CDS cited additional development costs even though the technology is already there for NHA securities. It is unclear why an additional build would be required to have all issuers access this gate and documents required to be uploaded would be less than those required by NHA Issuers. If it is CDS's intention to encourage efficiencies in its eligibility request process, combining ISIN requests with the eligibility request would be the first step in achieving that objective.

Recommendations

1 – Security Eligibility Administration Fee: the proposed fee of \$475 per request should be reduced/reconsidered for government issuers where the eligibility review performed by CDS is limited compared to more traditional equity and debt issuers and involves predominantly the manual transposition of security details in CDS's systems. Since CDS has created a 'Government Participant Category', the fees charged by CDS to government issuers should reflect the work performed by CDS and not necessarily a 'one size fits all' fee model which could potentially result in government issuers indirectly subsidizing non-government issuers where CDS's guidance and expertise is more justified. The OFA proposes that CDS develop a distinct fee model for government issuers.

2 – Certificate Fee: the proposed certificate fee of \$125 per security is not prohibitive, but CDS should refrain from adopting 'disincentive fees' or attempting to shape market behaviour. CDS should adapt and respond to prevailing market practices with appropriate rules and risk mitigation processes and not attempt to codify its rules to shift existing market practices to meet CDS's own objectives.

3 – Late Request Fees: the OFA has a number of recommendations on this matter, i) CDS should accelerate the turnaround time on ISIN/CUSIP requests and allow for additional time before late fees are triggered; in the OFA's view, all ISIN/CUSIP requests made by 17h00 (ET) should be turned around by CDS same day, ii) CDS should combine the ISIN/CUSIP request and eligibility request as it currently does with NHA securities, and iii) CDS should recognize that some Canadian government issuers currently bring new securities to market on a T+3 basis and that this could even move to a T+2 basis once the T+2 settlement comes into effect in September 2017. In the event public sector issuers adopt a T+2 issuance process, the Province will not be paying late request fees for following market practice.

Given the plain-vanilla nature of provincial debt securities and the limited scope of CDS's eligibility review, the OFA does not agree with CDS that this market practice results in a priority processing effort for CDS nor that CDS is assuming any substantial risk. While CDS has indicated verbally to the OFA that the proposed late request fees are not intended to affect the activities of the Province, the imposition of such fees may create an unintended consequence and penalize the debt issuance activities of government issuers. CDS should make it clear (i.e. commit in writing) that it will not levy late request fees against government issuers who bring

securities to market in shorter timelines than other equity and debt issuers.

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.

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