



Member of the Investment Industry Regulatory Organization of Canada

February 14, 2020

VIA EMAIL

Mr. Wayne S. M. Ralph  
Chief Operating Officer  
CDS Clearing and Depository Services Inc.  
100 Adelaide Street West  
Toronto, ON M5H 1S3

**RE: CDS' Proposed Significant Changes to Eliminate CDS Fee Rebates & Network Connectivity Fees**

Dear Mr. Ralph,

Casgrain & Company Limited ("Casgrain" or "We") appreciates the opportunity to provide comments to CDS and the regulatory authority on CDS' proposed elimination of CDS fee rebates and network connectivity fees ("Proposed Amendments").

As you know, Casgrain is one of the thirty-four identified participants that should benefit from a fee decrease should the Proposed Amendments receive regulatory approval. Our understanding is that this analysis relies on the fact that the elimination of both the Port and Logical Unit fees and the Managed Network Service fees ("Network Connectivity Fees") will outweigh the elimination of the payment of rebates we receive by CDS. As per CDS, we should be able to connect to its system through our current network provider which should not result in any additional network costs as we already have our own connectivity to TMX facilities. To assess CDS' assumption, we need more information on how to connect to its system, which as of today has not yet been provided to us. Until we are provided with the proper information to evaluate our connectivity costs, it's difficult to determine whether CDS' Proposed Amendments are advantageous or not for Casgrain. Moreover, as the elimination of Managed Network Service fees is not contingent on CDS obtaining approval for the rebate elimination, its total elimination is of greater importance for CDS participants. Our concerns regarding the elimination of the rebates are outlined below.

General Comments as a Stakeholder

Firstly, we would like to emphasize that we understand CDS' objectives in replacing its principal processing CDSX system by a more modern system, herein referred as the CDS Post-Trade Modernization ("PTM"), as well as the impacts of a status quo for the industry and its participants.

Casgrain & Company Limited  
1200 McGill College Avenue, 21<sup>st</sup> floor, Montreal QC H3B 4G7  
Telephone: 514-871-8080 / Fax: 514-871-1943  
casgrain@casgrain.ca / www.casgrain.ca

We support CDS in its efforts to offer their participants with a state-of-the-art technology clearing system. We do however, express certain reserves and concerns with its plan on how to fund its investment for the PTM project.

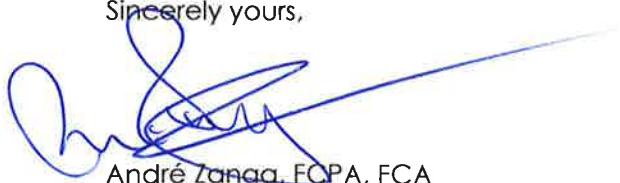
- a) As a funding model for its PTM and future technology projects, CDS proposes to permanently eliminate the rebate fees it pays annually to its participants and as an offset measure, eliminate the Network Connectivity Fees paid by participants to ensure that the TMX can continue to earn a minimum expected internal rate of return on the capital deployed to purchase CDS. We have difficulty understanding why participants should assume the entire risk associated with the PTM project and any future technology projects, where initially at the inception of the project, the funding was supposed to be derived strictly from CDS' own cash flows. Now that the forecast for the modernization investment has doubled since inception, the proposed funding model is now shifted amongst CDS participants only. We are conscious that participants will likely have to contribute in some manner to this investment, yet not on an ongoing basis as currently proposed by CDS. Accepting the permanent elimination of rebate fees is certainly not a laudable option for and to the benefit of CDS participants. Moreover, if I recall properly, there was a precedent in the past with CDS temporarily suspending its rebate fees payment to fund the CDSX project.
- b) Although the PTM project will bring benefits to the participants, we understand that CDS will also benefit from the modernization of its system through future cost reductions. Currently, these future savings are not quantified in the Proposed Amendments. As with regards to the enhancements planned to be offered to participants, they do not necessarily address the needs of its participants in the same way. For example, the proposed improvements will have a minimal impact on the efficiency of our operations as they do not address all of our needs, which are currently addressed by a third party, for which we do not foresee its service termination once the PTM project will be implemented. We would also like to raise concern regarding the availability of certain reports once the PTM project is implemented. It is our understanding that the time frame that reports will be available will be significantly reduced.
- c) CDS proposes to eliminate the rebates prior the PTM project go live date. We do not agree with this approach and neither of CDS' response regarding this matter when questioned. Should the elimination of rebates receive regulatory approval, we suggest as a measure of fairness and equitability for both CDS and its participants, which the elimination of the rebate coincides with the full implementation of the PTM project. Moreover, if the implementation of the PTM Project should be delayed for any reason, participants will not be penalized by having the elimination of rebates applied prior to the project being fully implemented.
- d) As the PTM Project continues to advance, there is no certainty that participants will not have to face any additional costs that were not previously forecasted. In such circumstances, will participants bear these costs (by a fee increase of any other indirect manner) just to ensure that the TMX maintains a reasonable internal rate of return? CDS' clarity on this matter would be welcomed.

Conclusion:

As mentioned, we do not disagree with CDS' plan to modernize its system through the PTM Project, nevertheless, we do express concerns on how CDS expects to fund this project. We do not share CDS' rationale to permanently eliminate the payment of rebate fees in order to maintain a reasonable rate of return for the TMX. To permanently forgive the rebate fees is a risky decision for CDS participants as the funding of future ongoing technology upgrades, as of today, is unknown. Most of the Proposed Amendments address the impacts, however, are lacking sufficient information regarding the benefits to CDS and their participants with respect to the implementation of the PTM project nor, do they quantify the monetary value of such benefits that will accrue to CDS.

We thank you once again for allowing us the opportunity to provide comments on the proposed amendments. Should you require additional information, please do not hesitate to contact the undersigned.

Sincerely yours,



André Zanga, ECPA, FCA  
Vice-President, Chief Financial Officer &  
Chief Compliance Officer

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