FIDELITY CLEARING CANADA®

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Via: wayne.ralph@tmx.com

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CDS Clearing and Depository Services Inc.
REVISED PROPOSAL:
PROPOSED SIGNIFICANT CHANGE TO ELIMINATE FEE REBATE MODEL And PROPOSED AMENDMENTS to ELIMINATE NETWORK CONNECTIVITY FEES and to ELIMINATE REPORT FILE TRANSMISSION FEES
NOTICE AND REQUEST FOR COMMENT

Dear Mr. Ralph,

Fidelity Clearing Canada ULC ("FCC") appreciates being provided with the opportunity to comment on the Proposed Amendments to Eliminate Fee Rebate Model, to Eliminate Network Connectivity Fees, and to Eliminate Report File Transmission Fees ("Revised Proposal").

Elimination of the Fee Rebate Model

FCC does not support the proposed significant change to eliminate the 50/50 rebates and the additional rebates that CDS currently offers its participants (collectively, the 50/50 rebates and the additional rebates are referred to as the "Rebates") after the post-trade modernization project ("PTM") goes live. This is not a fair or appropriate change to make in order to fund the PTM project and/or future technology projects.

FCC disagrees with CDS' response to Comment B9, specifically, "We believe that it is misleading and inaccurate for any participant to state that the impact of the rebate elimination is material to it."

When dividing the total amount of our 2020 CDS CAD invoices by the total amount of the rebates we received, the rebates equalled 19% of our invoices. Even after factoring in the savings associated with the elimination of the Port Fees and Outbound File Fees (approximately 2% of our total CDS CAD invoices), the elimination of the Rebates will effectively result in FCC paying an additional 17% annually in fees to CDS which is a material fee increase. It should be noted the above does not account for increases in service costs resulting from market volumes

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and business growth in the future. Ultimately this means our absolute costs to fund this platform is indeterminant as they will undoubtedly increase over time with other fee increases, market volumes and business growth.

The figures presented are based on FCC's 2020 invoices and resulting rebates. FCC has not included the elimination of the CDS Network Fees in its calculations as this cost was transferred not eliminated. It is expected that if a product or service used by a participant is eliminated by the service provider that the associated cost would be eliminated. FCC moved off the CDS managed network on Feb 27, 2021 and costs have increased.

Also, the wording in Section IV (IMPLEMENTATION OF THE CHANGES) sub-section D ((Report Fees Elimination (Code Item 6170)) of the Revised Notice is misleading as it only applies to the reports that are provided to participants via SFTP. All other outbound files will continue to be subject to the fee associated with Billing Code 6170. While FCC considers itself a participant falling into the "Greater Fees Segment", due to the overall impacts of the elimination of the fee rebate, the savings referenced for fees charged on reporting only equate to 0.007% of CDS' assumed savings to participants of $1 million annually.

FCC believes only the participants that currently fall into the "Greater Fees Segment" truly quantify the impact of this significant change as these participants represent approximately 80% of all fees paid to CDS and approximately 85% of all rebates received. Clearly the use of the word 'significant' is not invalid or misguided for this group. Also, while CDS' low clearing and settlement fees, relative to their global peers is something to be proud of, they are not relevant to the argument for this proposed change; such change, in FCC's opinion, is significant and in need careful consideration.

Rather than eliminating the rebates or raising fees, other more appropriate sources of funding are typically available to "for profit" enterprises, such as CDS, and these should be used to cover the cost of the PTM project and future technology upgrades.

Value of the PTM Project

The system being implemented to replace CDSX is estimated by CDS to have a 10 to 15-year useful life. This is much shorter than the periods of time that the current systems that are being replaced have been in operation and it is unclear whether the new system's life span started/starts when the new system was first being developed or when the new system is implemented or somewhere in between. Based on estimation and inherent assumptions, the cost to replace CDSX is between $120 and $135 million. In three years of testing, this estimated cost of a new system has doubled from its initial estimation of $70 million.

The proposal results in CDS retaining at least $10 million[1] annually from no longer paying the Rebate Fees to its participants. The new system delivered to CDS is already 3-4 years old and still in its testing phase. While the start time of "useful life" is unclear, assuming CDS remains on target to deliver this system to its participants in Q1 2022, the remaining useful life might only be

[1] As stated earlier in this letter, the $10 million in rebates is based on the annual average rebate fees paid by CDS over a 5-year period to its participants.

10 years. This still leaves CDS short approximately $35 million[2] to cover the initial cost for their new platform, notwithstanding the costs required to maintain the system on an ongoing basis.

FCC believes that CDS has failed to convey the value of the PTM project to its participants and Canada's financial system.

While the systems that are to be replaced may be approaching end of life from a volume scalability standpoint, at a holistic level, the new system will actually provide less value to participants than is provided by the current systems it is replacing.

While the replacement of the current IBM 3270 user interface "green screens" with a GUI is long overdue and may provide a better user experience, many participants have either moved away from the green screens or use them on a very limited basis.

Offloading the responsibility for report retention/storage to participants will have significant negative impacts. Participants must either design, build and test their own report retention/storage processes or engage a vendor to provide this service. All these options will have financial consequences to be borne by participants.

Concerns Raised by Participants

Participants have expressed concerns pertaining to the lack of information that has been provided in relation to the Batch Settlement Optimization ("BSO") sub-system that will replace BNS/CNS. Participants note a lack of comprehensiveness around the number of test cases. The significant risk associated with BSO and the testing exercises must be addressed as soon as possible (summarized in a letter submitted to CDS by the CCMA PTM- Advisory Council on January 9, 2021).

The response letter posted by CDS on March 25, 2021 to the CCMA PTM - Advisory Council fails to address the concerns raised stating "once the final code is received from TCS, CDS plans to run the new BSO process using a statistically valid time period". Given the importance of BSO, FCC underlines this critical function will require more testing than the current plan of five days. While poor planning and execution of PTM has already led to several delays in scheduling and doubling the projected costs since its initial estimate, this critical process cannot be overlooked and will require more testing time. The expectation is the system replacing the BNS/CNS process is equal to, or better than, the existing process. Accepting anything that is inferior to what is currently provided would be to the detriment of the Canadian Capital Markets industry.

In general participants have had very little input to the direction of the project work and are now expected to fund these system changes.

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[2] Assuming a 10-15 year of useful life for the new platform and taking into consideration the system that has been delivered to CDS with 3-4 years of review, analysis and testing in progress, how the remainder of the costs to implement are to be covered is unclear. If the 3-4 years of review, analysis and testing are reducing the system's useful life, there is a discrepancy of approximately $35 million assuming an amortized amount retained of CDS fee rebates over a 10-year period. The total $120 - 135 million estimate from 2017-2018 is outdated and is assumed to have increased, considering recently announced delays.

The challenges in scheduling and estimated costs associated with the project are also indicative of why FCC opposes the elimination of the Rebates and shifting to a model where participants are effectively funding the system changes.

In conclusion, based on the above noted concerns, CDS needs to reconsider its proposed funding model and strategy to ensure the continued competitiveness and efficiency of the Canadian Capital Markets industry. FCC maintains its position that the elimination of the Rebates is not consistent with the Recognition Order.

FCC is available to discuss the contents of this comment letter with the recipients.

Yours truly,

FIDELITY CLEARING CANADA ULC

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