

**CDS CLEARING AND DEPOSITORY
SERVICES INC. (CDS[®])**

**PROPOSED AMENDMENTS TO CDS FEE SCHEDULE RE ISIN
ISSUANCE and CDS ELIGIBILITY SERVICES**

NOTICE AND REQUEST FOR COMMENT

DESCRIPTION OF THE AMENDMENTS

Background

In November, 2014, CDS's principal regulators published a Notice and Request for Comment (the "2014" Notice") concerning proposed amendments to CDS's Fee Schedule for certain services currently provided to securities issuers. CDS received feedback on its proposed amendments from multiple issuer constituencies and from CDS's principal regulators. In order to both clarify its proposal and to clarify issuers' concerns, CDS engaged in extensive consultation with these issuer constituencies and our regulators. While CDS believes that the amendments to the Fee Schedule proposed in the 2014 Notice remain fair, reasonable, and equitable, CDS has determined that these proposed amendments are more appropriately made in two separate submissions. The Notice and Request for Comment published by CDS's principal regulators on November 21, 2014, is, therefore, withdrawn.

The present Notice and Request for Comment addresses the processing of, and associated proposed fees for, the preliminary, pre-closing, phase of securities issuance, including ISIN issuance and CDS eligibility services (the "Issuance Services" as more specifically described below). A subsequent Notice and Request for Comment will address a security's post-closing/issuance life cycle and will propose certain fees for entitlements and corporate actions event management services (the "E&CA Services"). Each proposal takes careful account of the concerns, comments, and suggestions presented by issuer constituencies subsequent to the publication of the 2014 Notice and through the public comment process.

Regulatory Oversight

As a recognized clearing agency under the Ontario *Securities Act* and the British Columbia *Securities Act*, and a recognized clearing house under the Quebec *Securities Act*, CDS is providing this Notice and Request for Comment in accordance with the recognition requirements of each of these jurisdictions. CDS is requesting regulatory approval for the proposed ISIN Issuance and Eligibility Services fees pursuant to Section 7.8 of Schedule B – Terms and Conditions of the Ontario Securities Commission's ("OSC") Recognition Order, pursuant to Article 26.6 of Recognition Decision 2012-PDG-0142 of the *Autorité des marchés financiers du Québec* ("AMF"), and pursuant to Section 9 of the British Columbia Securities Commission ("BCSC") Recognition Order, each as amended. A list of the proposed amendments appears in Appendix "A" attached to this Notice.

Issuance Services

CDS's existing Issuance Services include the assignment of International Security Identification Numbers ("ISINs") to securities, depository eligibility assessment and processing, securities registration-related services (including acceptance of certificates and late requests) are of significant value to issuers and other market participants and enhance the efficiency of the process of bringing securities to the market. While CDS levies charges for ISIN issuance, depository eligibility, and registration-related services; these fees do not currently cover the costs for providing the services or provide a reasonable margin allowing for reinvestment. This proposal contemplates both fee *increases*, for services whose revenues are insufficient to make their provision commercially viable (e.g., CDS Eligibility fees) and as fee *reductions* for services that CDS has determined require fewer resources and management (e.g.,

BEO Certificate Fees). The proposal also includes certain disincentive fees (e.g., late request fees) intended to support the handling of these requests on a rush basis outside of the standard processing timelines.

Pricing Principles

The proposed Issuance Services fees are grounded and governed by the following guiding principles:

1. Value-added services provided by CDS warrant compensation by those using and benefiting from the Services.
2. Fees should take account of the service cost and the operational risk of service delivery.
3. CDS requires service revenue to fund current and future infrastructure and system development to service improvements, enhancements, and modernization for the benefit of the Canadian markets.
4. Service fees should provide economic incentives to encourage market innovation and more standardized and automated transaction processing.
5. CDS must generate shareholder value and a reasonable return on investment while remaining a cost-competitive service provider to the financial industry.

CDS has consulted with a wide variety of stakeholders to ensure that the proposed fees are consistent with the value provided, are easy to understand, are uniformly applied, reflect the benefits of risk management offered by CDS as a central hub for securities processing, and align with both domestic and global benchmarks. The proposed amendments to the CDS Fee Schedule are, specifically:

- i. The simplification and standardization of the pricing structure for ISIN Issuance services;
- ii. The introduction of a security eligibility administration fee and late request fee; and
- iii. Adjustment to existing certificate fees.

Subject to regulatory approval, CDS intends to implement the proposed amendments to its Fee Schedule in the third quarter of 2016, upon appropriate notice (not less than 60 days) of such implementation to affected stakeholders, including notice to both Participants and Issuers.

NATURE, PURPOSE AND IMPACT OF THE PROPOSED AMENDMENTS

Background

Pursuant to the above general pricing principles, CDS proposes to amend its Issuance Services fees in order to meet its ongoing operational needs, to deliver fair and equitable treatment to all issuers, and to provide sufficient margin to enable CDS to invest in development and on-going maintenance of its issuance systems. Issuance Services consume significant resources, and service improvements are only possible through ongoing system modernization. The proposed Issuance Services fees are intended to ensure that CDS continues to provide issuers with a robust market infrastructure that, amongst other things, satisfies CDS's public interest mandate and responsibilities, ensures that CDS has sufficient revenue to comply with its regulatory obligations, helps offset development and modernization resource expenditure that will permit CDS to keep pace with evolving issuance needs, and ensures issuers or their agents access to various securities issuance and administration processes at a globally competitive price.

The sections below address fee changes as regards the issuance of International Security Identification Numbers ("ISINs"), handling depository eligibility requests, certificate fees, and late request fees. More specifically,

- CDS proposes to charge a single base price for the issuance of an ISIN. This single price

point reflects the fact that ISINs are a standard product offering and an essential service enabling straight-through-processing.

- CDS proposes to introduce a security Eligibility Administration fee. This fee is proposed to acknowledge the effort and resources required to process eligibility requests.
- CDS proposes to *reduce* the BEO certificate fee to reflect an overall reduction in risk and potential replacement expense for CDS. Certificate disincentive fees, which support CDS's continued efforts towards securities instrument dematerialization will, however, remain on the Fee Schedule.
- CDS proposes to implement a new disincentive fee for late security eligibility requests to acknowledge and reflect the risk and delays to other activities when such requests are received outside of established processing timeframes. CDS has ensured that these proposed disincentive fees are consistent with those of other depositories whose fee schedules include specific late fees.

Simplified Pricing for ISIN Issuance

Standard ISIN and Issuer Code Assignment

In order for an issuer's security to be identified by CDS's depository, clearing and settlement systems and to allow for the wide tradability of that security in Canada, an issuer must obtain a unique ISIN for that security. CDS is the recognized National Numbering Agency (NNA) for Canada, and issuers who require ISINs must do so via CDS. Issuers apply to CDS Securities Management Solutions Inc. ("CDS SMS") for each ISIN or for an issuer code.

CDS proposes to amend the existing fees for ISIN issuance to implement a single base price which accounts for both the standardized nature of the service (the ISIN) and the resources and time expended by CDS SMS in issuing the ISIN. This single base price structure eliminates any price imbalance (by eliminating price discrepancies based on asset type and eliminating any incentive to initiate a request for a "discounted" ISIN) and ensures end-to-end ISIN issuance fee transparency.

Issuer codes identify an issuer and are embedded in an ISIN assigned to a particular security. In some cases, money market instruments, for example, an issuer code must be purchased before an ISIN can be derived and assigned.

The proposed fees will affect all CDS issuers who require an ISIN. New fees will be standardized at a base price; additional charges will be applied depending on the type of ISIN issued (single ISINs, serial ISINs, strip bonds and strip packages). Issuer code requests will be charged on a per-code basis. The proposed fees are as follows:

1. Single ISIN (\$268/ISIN, which includes Standard & Poor's[®] pass-through charge (if applicable));
2. Strip bond ISINs and strip package ISINs (\$160/generic ISIN);
3. Serial ISINs (\$268/ISIN + \$35/additional ISIN)**;
4. Issuer Code requests (\$160/issuer code).

***Municipal Serial Bond Programs*

Issuance of serial bonds, pursuant to debt-issuance programs, which are largely unique to municipal issuers, necessitates a variation in CDS's approach to the pricing of ISIN requests. Serial Bond programs generally consist of terms from 5 to 10 years and consist of as many securities (ISINs) as there are years in the term of the program, and the maturity dates for each of a program's ISINs are

laddered throughout the term of the program. Each ISIN, however, is equivalent in all of the terms of the issue with the exception of the maturity date and applicable interest rate.

Security Eligibility Administration Fee, Certificate Fee, and Late Request Fees

CDS proposes to implement an eligibility administration fee, to re-designate and, in the case of Book Entry Only certificate fees, reduce existing eligibility fees for the sake of accuracy and transparency, and to implement three levels of late request fees. The proposed restructuring of the security eligibility administration fee, and the re-designation of the certificate fee, reflect analytical and administrative efforts involved in confirming that a new issue may be processed by, and in, CDS's systems.

The process of issuing securities requires the contribution and expertise of many individuals and organizations (including, for example, exchange listings personnel, underwriters, legal counsel, securities dealers and transfer agents, amongst others), and that expertise, including CDS expertise, carries a cost. The expertise, time and resources which CDS dedicates to interacting with and guiding securities Issuers, and to managing the bring-on of new issues into the depository, is a critical element in managing marketplace systemic risk. The proposed fees reflect this fact.

Security Eligibility Administration Fee

CDS proposes to implement a one-time eligibility administration fee for the processing of an eligibility request for non-money market securities. Eligibility assessment involves a detailed review of the offering documents (such as prospectuses and term-sheets), the identification of the details or features required to meet CDS eligibility requirements and, finally, the manual transposition of these detail into CDS's systems. The proposed eligibility administration fee of is **\$475 per request** is intended to account for the administrative costs of making securities depository-eligible, and will be applied upon the submission of the request for eligibility..

By contrast, the eligibility administration of money market securities is handled within CDS systems *by CDS Participants themselves* and is fully automated once an issuer code is purchased. Money market eligibility fees, which are currently on the CDS Fee Schedule, are applied when the security is activated in CDS systems and will continue to apply to eligibility requests for these securities. CDS does not propose to change these money market eligibility fees at this time.

Certificate Fee

CDS proposes to re-designate existing eligibility fees as a certificate/certification disincentive fee. This change more accurately reflects CDS's objective of promoting and supporting the dematerialization and/or immobilization of securities at CDS. Certificates, for example, require review to verify that the certificate is negotiable and that certificates are below acceptable maximum values under appropriate CDS insurance requirements. Certificates also require tracking and physical receipt in CDS systems as well as vaulting and all associated costs. **A fee of \$1,100 was implemented in 2010 for each definitive security deposited and vaulted with CDS.** There is no change to this fee at this time, and issuance of physical certificates is exceptional. CDS intends, however, to stop accepting new certificates into its vault as early as Q3-2017, and is currently involved in in-depth discussions with those few issuers who continue to issue physical certificates. An appropriate issuer outreach program will be established well before that date.

The cost to maintain global certificates for Book Entry Only securities, though not paperless, is far less resource intensive, and carries less risk. CDS proposes to reduce the existing certificate fee for Book Entry Only securities from \$550 to \$125 for all requests since these certificates require less management and have a reduced risk for CDS.

Sample Issuance Costs

A standard initial public offering transaction for a corporate Issuer would attract the following fees:

	Current	Proposed
One-time ISIN fee	\$325	\$268
Eligibility Administration fee		\$475
BEO certificate fee	\$550	\$125
Total	\$875	\$868

Late Request Fees

A municipal serial bond with 10 series submitted with one BEO certificate:

	Current	Proposed
One-time ISIN fee	\$325	\$268
Additional ISINs (9 ISINs x \$35)		\$315
Eligibility Administration fee		\$475
<u>BEO certificate fee</u>	\$550	<u>\$125</u>
Total	\$875	\$1,183

When a depository eligibility request is received with less than 48 hours remaining before a closing, the result is a priority processing effort which comes at substantial resource opportunity-cost and risk for CDS. The processing of these late requests inevitably delays other activities for which CDS is responsible, and the risk and consequences of any processing delays fall on CDS. Additional manual interfaces are often required since some automated processes may no longer be used. The introduction of a fee for late eligibility requests is intended to discourage such late requests and their associated costs and risks.

Late Request fees will be charged in the event that an issuer's request for depository eligibility is received outside of CDS's established time-frames.

The proposed late fees will be applied as follows:

- a. Normal Course requests: requests submitted up until 12h00 on Closing Day - 2 (CD-2) will fall under regular service.
- b. 48 hour late fee (\$2,000): will only be levied on requests that are submitted after 12h00 on CD-2; This provides Issuers with time on the morning of CD-2 to submit eligibility requests without any late fees and assists with minimizing costs associated with issuing securities.
- c. 24 hour late fee (\$5,000): will only be levied on requests that are submitted after 00h01 on CD-1.
- d. Closing Day late fee (\$10,000): will only be levied on requests that are submitted after 00h01 on the date of closing.

The standard CDS service level objective (SLO) for processing of depository eligibility requests requires that a request be received, with final documentation, 2 business days prior to the closing date to ensure that the security is ready for settlement on closing. This SLO has not been changed, and CDS has always accommodated late requests on a good faith, best efforts basis. CDS notes that while the majority of requests are received according to prescribed timelines, certain issuers continue to make late requests. CDS's cut-off time is required for the review, analysis, and completion of the request on the day prior to closing and to allow new issue deposits and settlement trades to be set up. CDS's systems then ensure that the securities are available in the CDS system when the issue closes the next day.

CDS has always been, and continues to be, willing to collaborate with Issuers who have structured their new issuance process with shorter timelines than CDS's existing processes would otherwise allow. In general, such collaboration either streamlines Issuers' processing activities or, where process changes cannot reasonably be accommodated, results in "special handling" procedures – and associated fees – to manage requests on a more compressed timeline.

Fees for late eligibility requests are standard market practice, and their implementation is intended to incent Issuers to improve overall process efficiencies. Late fees are not intended to generate revenues but to incent behaviour consistent with CDS's ability to deliver its services accurately, effectively, efficiently, within explicit service levels, and within its current systems capabilities.

Competition

The proposed amendments to the Fee Schedule for Issuance Services are not expected to have a material impact on the competitive environment in which CDS, its issuer clients or its Participants operate. The intent of the proposed amendments to the Fee Schedule for Issuance Services is to simplify and balance Issuance Services fees. All issuers will be charged on a fair and equal basis consistent with CDS's business practice, with the above-noted pricing principles, and with CDS's obligations under its regulatory framework. Additional detail with respect to CDS's international comparators can be found in the section entitled "Comparison to International Clearing Agencies", below.

CDS acknowledges that in its capacity as the National Numbering Agency (NNA) for Canada, requests for ISINs must flow through CDS. Likewise, eligibility to use CDS's clearing and depository services must be administered by CDS. CDS's proposed Issuance Services fees recognize this and are priced to meet its ongoing operational needs, to deliver fair and equitable treatment to all issuers, and to provide sufficient margin to enable CDS to invest in development and on-going maintenance of its issuance systems. The fees are intended to ensure that CDS continues to provide issuers with a robust market infrastructure that, amongst other things, satisfies CDS's public interest mandate and responsibilities, ensures that CDS has sufficient revenue to comply with its regulatory obligations, helps offset development and modernization resource expenditure that will permit CDS to keep pace with evolving issuance needs, and ensures issuers or their agents access to various securities issuance and administration processes at a globally competitive price. Importantly, and in addition to CDS's domestic regulatory framework, any fee or fees charged for ISIN issuance are provided to the Association of National Numbering Agencies (ANNA) in order to ensure transparency for securities issuers. Development opportunities in this space include automation support to handle new asset classes and the ability to manage disparate issuance settlement (closing) cycles. As regards certificate fees, it is important to note that alternatives to centralized immobilization of securities, such as 3rd party custody and Non-Certificated Inventory, are also available to issuers.

In certain cases, CDS has special processing arrangements in place to assist issuers with individual and highly specific requirements, and part of the goal of the proposed fees is to align the terms of these arrangements so that they are consistent with CDS's stated fair pricing principle. At certain Issuers' specific request, CDS is working with them in order to further reduce or avoid costs.

The Fee Setting Process

Development Context

The proposed amendments to the Fee Schedule for Issuance Services were submitted to the CDS Participant Fee Committee for review and comment and were subject of discussion at several Fee Committee meetings. The CDS Fee Committee did not disapprove of CDS's proceeding with the submission of the proposed fees for regulatory approval.

Prior to submission for regulatory approval, the proposed fees were also tabled with the CDS Risk Management and Audit Committee ("RMAC") and the CDS Board of Directors for review and comment. Neither RMAC nor the Board of Directors made changes to the proposed fees as presented by CDS management and instructed CDS to proceed to submit the proposed fees for regulatory approval.

Consultation

CDS met with multiple stakeholders, including materially impacted issuers, CDS Participants, government agencies, and intermediaries including Transfer Agents who currently interact with CDS. Feedback from the aforementioned entities included the suggestion that the fees should be lower in certain cases where processing is substantially automated and the suggestion that CDS review certain parts of the pricing model in which stakeholders felt that costs were inelastic. Transfer agents are not materially impacted by these Issuance fees; ISIN Issuance and Eligibility requests are made by legal counsel to the issuer or by the issuer itself.

The 2014 Notice elicited additional comments from certain constituencies as regards the Issuance Services. CDS also met with stakeholders and Regulators, individually and jointly, regarding these fees. Feedback received from stakeholders in the ~18 months since the publication of the 2014 Notice included the suggestion that the timelines for eligibility requests be compressed to better accommodate settlement timeframes. Related adjustments are included in this submission.

Alternatives Considered

The fees proposed in this notice were, in fact, developed and evaluated against a complex existing fee structure, and CDS considers its simplified proposal to be materially advantageous to all affected stakeholders, including CDS.

CDS has proposed a **single base price** for the issuance and assignment of an ISIN which reflects ISINs as a standard product offering to replace the alternative, is to maintain five different price points for what is essentially the same service. CDS does not consider the existing complex structure to be consistent with the principles of fairness and equity vis-a-vis CDS's clients.

The proposed ISIN eligibility fees reflect the effort to provide the service; the certificate fees and late fees are transparent and align with CDS's stated pricing principles. The proposed fees incent efficient market behaviour through certificate fees with the objective of promoting dematerialization; are fairly applied to all Issuers regardless of type of security being brought to market (debt or equity), and have been designed in a way that allows Issuers to rapidly assess their future costs.

Late fees are not intended to generate revenues but to incent behaviour consistent with CDS's ability to deliver its services accurately, effectively, efficiently, within explicit service levels, and within its current systems capabilities.

COMPARISON TO INTERNATIONAL CLEARING AGENCIES

While levying depository eligibility administration fees is not uncommon internationally, CDS's review of its international comparators has revealed significant variance in the nature of the relationships between Central Securities Depositories and issuers and, consequently, in the fees charged for Issuer Services. Though direct, like-to-like, comparison is not always possible, the following examples are illustrative: ASX (Australia), which is entirely dematerialized, bundles eligibility fees with its listing

fees; Denmark charges eligibility fees based upon volume; and Clearstream's certificate fees are bundled with safekeeping charges. .

The proposed fee types and prices for CDS's services are either equivalent to, or less than, those of DTCC, CDS's North American comparator, and are less than the prices for such services at CDS's other international comparators. The proposed late request fees also mirror disincentive fees currently levied by DTCC. Other depositories, by contrast, will not even accept late requests.

By way of example, publicly available documentation infers fees in the following ranges for the services described in this submission (fees are reflected in Canadian dollars).

- ISIN Issuance Fees: Range from \$0 at Clearstream to as high as \$695 at Strate (South Africa). Standard and Poor's (S&P) charges \$\$215 to \$325, placing CDS's proposal of \$268 fee within the S&P price range.
- Eligibility: Clearstream show fees in the \$220 to \$365range. DTC fees range from \$450 to \$1,030. The \$475 proposed by CDS is reasonably within this band.
- Certificate fees: DTC charges \$2,580 for certificate fees.
- Late Fees: - Late fees (Rush services) can be as high as \$12,800 at DTCC.

Public Interest

CDS submits that the proposed fees for Issuer Services, as developed and described in this Notice, and submitted for approval pursuant to CDS's regulatory framework (which includes *inter alia*, the obligation to operate in the public interest) are not contrary to the public interest.

Comments

Comments on the proposed amendments should be in writing and submitted within 30 calendar days following the date of publication of this notice in the Ontario Securities Commission Bulletin to:

CDS Clearing and Depository Services Inc.
Attn: Stephen Nagy, Managing Director, SIES
85 Richmond Street West
Toronto, Ontario M5H 2C9

Telephone: 416-365-3573

Email: snagy@cds.ca

Notice and Request for Comment – Proposed Amendments to CDS Fee Schedule – Issuance Services

Copies should also be provided to the Autorité des marchés financiers, British Columbia Securities Commission and the Ontario Securities Commission by forwarding a copy to each of the following individuals:

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CDS will make available to the public, upon request, all comments received during the comment period.

Appendix A: Proposed Fees

Existing Code	Proposed Code	Current Fee Description	Existing fee	Proposed Fee Description	Proposed Fee Effective Nov 1/16	Change Description
4711	4710	ISIN Issuance – Debt NHA	\$140	ISIN Issuance – CDS	\$160	Standard base price per ISIN or issuer code, consolidated into a single proposed fee for each of the items.
4712		ISIN Issuance – Debt Medium Term Note (MTN)	\$25			
4714		ISIN Issuance – Package	\$230			
4715		ISIN Issuance – Strip Bond	\$105			
4700	4700	ISIN Issuance – Standard & Poor's	\$325	ISIN Issuance – Standard & Poor's	\$268	Standard base price plus S&P pass-through
new	4724	<i>No description</i>	<i>No Fee</i>	ISIN issuance - Serial Bond Items	\$35	Charge for each additional ISIN
new	6236	<i>No description</i>	<i>No Fee</i>	Security eligibility administration	\$475	Charge per eligibility request
*6232	6232	Eligibility Certificated BEO Global	\$550	Certificated BEO Global	\$125	Charge per eligibility request and number of certificates
new	6238	<i>No description</i>	<i>No Fee</i>	Eligibility Admin-48 hour late fee	\$2,000	Charge per request received less than 48 but more than 24 hours before the closing date. Effective at 12h01 on closing day (CD) -2.
new	6237	<i>No description</i>	<i>No Fee</i>	Eligibility Admin-24 hour late fee	\$5,000	Charge per request received less than 24 before the closing date. Effective at 00h01 on CD-1.
new	6239	<i>No description</i>	<i>No Fee</i>	Eligibility Admin-closing date late fee	\$10,000	Charge per request received on the closing date. Effective at 00h01 up to 13h00 on CD. Same day requests are not accepted after 13h00 on CD.

*All fees appear in the CDS Solutions fee schedule with the exception of 6232 which appears in the CDS Clearing fee schedule.