

**CDS Clearing and Depository Services Inc. (CDS®)**

**Proposed Amendments to CDS Fee Schedule re  
Entitlements & Corporate Action Events Management**

**NOTICE AND REQUEST FOR COMMENTS**

**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 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 The Notice and Request for Comment published by CDS's principal regulators on November 21, 2014, is, therefore, withdrawn.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 implementation of certain fees in respect of the management by CDS for securities issuers, of Entitlement & Corporate Action events (the "E&CA Services", as more specifically described below). A separate Notice and Request for Comment addresses the processing and associated proposed fees, for preliminary, pre-closing, securities issuance, including ISIN issuance and CDS eligibility services (the "Issuance Services"). The E&CA Services are provided in respect of a security's post-closing/issuance life cycle. 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 regulatory comment process.

Subject to regulatory approval, CDS intends to implement the proposed amendments in the fourth (4<sup>th</sup>) quarter of 2016, upon appropriate notice to stakeholders, but in no event prior to November 1<sup>st</sup>, 2016.

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 E&CA 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.

Entitlement & Corporate Action Event Management Services

CDS provides a variety of value-added ancillary services to securities issuers for which it does not currently charge. The absence of fees in respect of these value-added ancillary services was a consequence of CDS's legacy as a Participant-owned entity the regulatory oversight of which permitted the cross- subsidization of such services by other lines of CDS business. These services, which minimize costs to the issuer and enhance processing efficiencies, include:

- Acting as an effective conduit for disseminating issuer E&CA information to Participants and their clients. In many, if not most cases, securities issuers have the obligation to inform the holders of their securities of any changes or news related to a particular securities issue, and CDS's personnel, services, and systems ensure that this information is transmitted appropriately and efficiently to its financial intermediary Participants in order to maximize shareholder awareness of corporate events.

- Providing issuers with infrastructure enabling the efficient transfer of trillions of dollars of entitlement-related payments. A single registered holder of securities requires one payment, rather than a distribution (and associated costs) to multiple financial intermediaries or beneficial holders. A single dividend payment on a widely held security, eliminates the processing and administration of up to 100 (the approximate number of CDS Participants) individual funds transfers.
- Providing issuers with the infrastructure to enable the efficient transfer of consideration for issuer –related corporate actions, including mergers and acquisitions; in 2015, these payments amounted to approximately \$257MM. As the single registered holder of securities, issuers and their agents are required to execute only one transaction (a dividend-in-kind or stock-split, for example), rather than distributing those entitlements to individual financial intermediaries or even, in certain cases, to beneficial holders.
- Providing issuers with same day delivery, on payable date, of all cash and security distributions registered to CDS. This efficiency and accuracy allows issuers and their agents more latitude and flexibility with respect to their treasury, reduces the opportunity cost of funds which would otherwise have had to have been disbursed further in advance of the payable date, and permits security-holders faster access to such distributions.
- Providing a cost effective means for beneficial holders to participate in issuer DRIP programs. CDS's services enable the aggregation by CDS of beneficial holder tenders, the total of which is provided to an issuer or their agent for processing as one request. Direct interaction with financial intermediaries and/or beneficial holders would otherwise impose significant processing obligations on the issuer or agent and would increase the volume of transaction, time, risk, and certificate transfers. These additional transaction costs may subsequently flow through to Transfer Agent issuer clients.
- Providing a centralized hub for the collection of beneficial holders' instructions and for communication between beneficial holders and the issuer. The legal structures of a wide variety of securities which CDS handles often require that the registered holder takes specific action or makes specific instructions. In the event that an issuer is restructuring its debt and requires consent for an amendment to a trust indenture, for example, only one consent is required – CDS's. The issuer or its agent would otherwise be required to manage this consent process.

## **NATURE, PURPOSE AND IMPACT OF THE PROPOSED AMENDMENTS**

E&CA Services provide significant value to security issuers of all types and the benefits of the Services accrue to multiple stakeholder groups, including Participants, and Transfer Agents.<sup>1</sup> CDS Participants, however, are charged per transaction for the movement of funds or securities into their ledgers, and CDS is only compensated when security holders *receive* payments of cash or securities or otherwise *act* on a corporate action. CDS does not currently charge issuers for management of their E&CA events and, as a result, the set-up and management of the event lifecycle for voluntary or mandatory events with an option, which result in no holder participation and no receipt of cash or securities, constitute a processing expense for which no revenue is generated. CDS runs its entitlement at corporate actions service at approximately a 50% deficit to cost.

CDS proposes to implement certain E&CA Services fees in order to meet our ongoing operational needs and stakeholder development requirements (including both Participants and issuers). These operational needs and development requirements consume significant resources, and improvements are only possible through ongoing system modernization. The proposed E&CA fees are intended to ensure that CDS is able to fulfill its mandate of offering multi-asset-class services, is able to maintain and modernize its technology infrastructure, and is able continuously to improve services to issuers who continue to create new and innovative securities. The proposed E&CA fees will contribute to investments and maintenance in entitlements and corporate actions processing systems and will permit CDS to continue to provide issuers with a robust market infrastructure at a globally competitive price.

### Entitlement and Corporate Action Event Management Fees

<sup>1</sup> In 2015, for example, CDS processed \$3.15T in entitlements and corporate action payments.

## Background

Subsequent to the publication of the 2014 Notice, CDS received comments from representatives of government issuers (provincial and municipal), exchange traded fund issuers, exchange operators, transfer agents and the investment dealer community. While we do not propose to re-examine those comments in the context of the present proposal, we note that the comments, questions, and requests for clarification fell into six broad themes including: a) adherence to regulatory and contractual requirements; b) communications processes, c) program objectives and alignment with regulatory and CDS pricing principles, d) unintended consequences of implementation, e) Fee levels and pricing methodology, and f) issuer budget processes and development timelines for systems and process changes. CDS has posted these comments and responses on its website and we invite affected stakeholders to review these for further context regarding this submission.<sup>2</sup>

CDS has carefully reviewed these comments, has engaged with representatives of a variety of issuer constituencies, and has made a number of changes to the proposal made in the 2014 Notice to address our stakeholders' main concerns.

In addition to comments received from the public, CDS has been in continuous discussion with its principal regulators with respect to the proposal detailed in the 2014 Notice.

## Consultation

CDS met with multiple stakeholders, including materially impacted issuers, CDS Participants, government agencies, and intermediaries including Transfer Agents who currently interact with CDS and has, as noted, taken careful account of the concerns of its issuer constituents and its principal regulators. CDS has, therefore, made several significant changes to both the scope of the proposed E&CA fees and to their eventual implementation.

Prospective commentators should, therefore, be guided by the following implementation framework:

### *Transition Period*

CDS will consider the six (6) months immediately following the effective implementation of the proposed fees, which shall in no event occur prior to November 1<sup>st</sup>, 2016, to be a transition period. This transition is intended to relieve budgetary and planning pressures which stakeholders noted in their feedback to CDS.

*For the first six (6) months, and for all issues and associated entitlements and corporate action events, CDS will levy only 50 percent of the proposed fees. Following the transition period, CDS will levy the fees as proposed.*

### *Government Debt Issuers*

*Government debt securities deposited with CDS prior to the implementation of the proposed E&CA Services Fees will not be subject to the proposed fees for the life of those securities; that is, until their maturity.*

The proposed E&CA Services fees will not, for both contractual and public interest reasons, retroactively apply to government debt issuers; both the administrative efficiencies and the material economic benefits accruing to government issuers continue.

*In respect of Municipal serial bonds, CDS proposes to waive the agency fees associated with the interest payments for serial bonds. The agency fee for yearly maturity payments will, however, still be levied. The proposed waiver will result in a single agency fee for a payment associated with multiple distributions related to a series of debentures issues in keeping with CDS's underlying principal of equal treatment for similar services and addresses disproportionality concerns.*

### *Fixed Term Securities*

---

<sup>2</sup> CDS's summary of public comments received subsequent to the 2014 Notice is available here: <http://www.cds.ca/resource/en/154>.

CDS proposes to offer simple (that is, non-callable and/or without complex features such as early redemption) fixed term security issuers, including government debt issuers, the option for up-front payment of the E&CA Services fees. CDS proposes that such up-front payment would be discounted at a rate of 20 percent from the total, determinable, cost of E&CA event management fees over the life of a fixed term security that does not include additional features. While such up-front payment will, of course, vary according to the terms of the debt security issued, it will allow these issuers the certainty and transparency required by the statutes, regulations, and process under which such debt is currently issued. In the event that the terms of a debt issue are changed, or maturity dates extended, however, CDS would review fees levied on such applicable allowances and/or additional distributions.

Example: (8-year, fixed term bond, paying interest semi-annually:

Event Management – Interest	(8 x 2 = 16) \$1,600
Event Management – Maturity	\$100
Total fee over the life of the bond	\$1,700

The up-front payment at a 20% discount would equal \$1,360 (plus applicable tax).

#### *Transfer Agents*

Securities issuers appoint a Transfer Agent for purposes, amongst others, of disbursing entitlements and managing corporate actions, and CDS provides these services to the Transfer Agents themselves. The receipt of entitlement payments and the set-up and management of corporate actions are services in respect of which CDS is permitted to impose fees payable by Participants.

Pursuant to feedback from transfer agents, whose operations are deeply intertwined with those of CDS, CDS proposes to provide details of E&CA fees chargeable to the respective transfer agent's issuer-clients in electronic form and, further, will provide transfer agents with discrete invoices for each of Issuer Services and CDSX activity and will provide a breakdown of the E&CA services provided. The provision of this information should, in CDS's view, considerably reduce any potential operational or financial impact on CDS-approved transfer agents.

CDS has proposed that CDS invoice an issuer directly, rather than invoicing the transfer agent, if that issuer-client of a transfer agent with no direct contractual relationship with CDS (either through Participation or a via a BEO SSA). CDS has provided the members of the Securities Transfer Association of Canada (STAC) with a third party billing agreement for their use. CDS proposes to update related billing addresses upon receipt of the signed agreement from each issuer. Arrangements regarding the execution of such agreements, however, are and should be entirely at the discretion and in the control of the transfer agents themselves, as the proposed third party billing arrangement is for their benefit, not that of CDS.

CDS proposes to waive payment for services provided to the transfer agent (for the benefit of their issuer-customers) if the transfer agent is unable to recover such fees due to an issuer's bankruptcy or insolvency and provided that the transfer agent demonstrates that it has made commercially reasonable efforts to recover such fees from the issuer.

#### *Exchange Traded Fund Issuers:*

CDS received detailed feedback from the ETF issuer community which led CDS, representatives of the Canadian ETF Association (CETFA), and individual ETF issuers to explore developing the automated capacity to manage and process the specific and complex features associated with many ETFs, including SWPs, SWITCHes, and other complex features. There exists general consensus that these features are not E&CA events.

Development and project timelines, and the eventual implementation of any development initiatives are entirely dependent upon the scope of any development effort.

Once an eventual automated solution is implemented, CDS will seek to charge fees for applicable processing and management effort, and all parties contributing to the above-mentioned development effort are aware of that eventuality. In consequence, CDS does not propose to seek approval for ETF-related fees in the present

context. To the extent that CDS's E&CA systems and processes are used to effect such transactions, however, E&CA fees would apply.

### Per-Event Fees

The proposed amendments to the Fee Schedule will affect CDS issuers who distribute entitlements and/or undergo corporate action events. Per-event fees will be levied for specific Issuer Services. Each fee is based upon the complexity of a particular event, the extent to which manual processing is required, and the risk CDS bears to manage that event. The proposed fees are as follows:

1. Money Market interest and maturity events (\$10/event)
2. NHA interest events (\$10/event) and maturity events (\$10/event)
3. Interest event (\$100/event) and Maturity event (\$100/event)
4. Dividend event (\$100/event)
5. Corporate Action events with no option (\$250/event)
6. Corporate Action events with option (\$250/event)

### Agency Fees

CDS's facilities enable Participants and Limited Purpose TA Participants ("LP TA") to act on behalf of an issuer in the role(s) of Paying Agent (Entitlements Processor) and Depository Agent in order to manage release of entitlement payments and securities tenders. If the Paying Agent or Depository Agent is unable to, or chooses not to, manage its own events where a facility exists for them to do so, CDS manages these functions. CDS proposes the following agency fees for the foregoing activities:

- (i) Agency fee – paying agent (\$50/event)
- (ii) Agency fee – depository agent (\$100/event)

### Impact of Proposed Per-Event and Agency Fees

The impact of the proposed E&CA event management fees on debt and equity security issuers will depend on the number of events managed for that issuer, the type of events, and the effort and resources required to process those events. For context, CDS processed 160,875 events, for a value of ~\$3.15 Trillion dollars, in 2015 at a cost, per dollar distributed, of only a few 1/100<sup>ths</sup> of a basis point. CDS's analysis also indicates that in 2015, only 2,680 of 6450 Canadian issuers (approximately 42 percent) whose securities were deposited at CDS paid an entitlement or ran a corporate action event. Consequently, 58 percent of issuers would not have been impacted by the proposed E&CA event management fees.

In 2015, only 5 percent of issuers (approximately 140) accounted for 80 percent (approximately 110,000) of the E&CA events. Large banks and other financial institutions who are significant issuers of equity, debt and money market instruments, would be among the most impacted by the proposed E&CA event management fees. If a security's entitlements (interest) and/or corporate action event notifications tend to occur on a monthly basis, the impact of the proposed fees will be correspondingly larger. It is important to note that a significant number of events with monthly notification are not taken up by shareholders (approximately 13 percent of total Canadian events processed)<sup>3</sup>, resulting in no revenue to CDS despite the significant event management effort expended by CDS.

By contrast, the least-active 63 percent of issuers in 2015 accounted for only 3 percent of E&CA events. Under the proposed fee structure, the average annual cost, per issuer, would be between \$300 and \$1,050 depending on the event type and the issuers' agency needs. Junior market issuers for example, generate very little E&CA event volume and are not heavy users of CDS's E&CA event management services. The majority of such junior issuers will be among the least impacted by the proposed fees.

### Competition and E&CA Event Management Alternatives

---

<sup>3</sup> Of these non-taken-up events, approximately 50 percent were Exchange Traded Funds events.

The proposed E&CA fees have been developed in the context of specific, identifiable, and viable alternatives to CDS's providing E&CA event management and to the use of CDS as a single payee and information processor. These alternatives include disbursement of entitlements and processing of corporate action events outside of CDS's systems by issuers or their transfer agents by a variety of means.

The proposed amendments were developed precisely to permit us to offer valuable services in a competitive market. All issuers will be charged fairly and equitably pursuant to CDS's obligations under its regulatory framework. The intent of the proposed amendments is to provide for a significantly more balanced, value-for-service based service fee payable by the recipient of the applicable services.

If, however, issuers find CDS's Issuer Services fees to be non-competitive, there are multiple viable options available to them; CDS is not currently, and will not be, the sole-source provider of E&CA event management services. It is important to note that securities for whom CDS does not currently hold 100 percent of the outstanding securities (e.g., certain corporate equity securities) *already* employ such options. If, for example, CDS holds only 50 percent of an issuer's shares at CDS, the issuer, or more likely their appointed agent, manages corporate action events and processes entitlements for those direct or certificated security-holders outside of CDSX. Issuers and their agents can, and currently do, receive or obtain Holders of Record information to deepen their understanding of their security-holder base and could use such information to process entitlements *outside of CDSX*. Direct registration systems are also available for precisely these purposes.

Further, where CDS is the custodian for 100 percent of an issue of securities, CDS currently offers the Registrar & Paying Agent (RPA) Service as an alternative to the engagement of a Transfer Agent to permit the reduction of an issuer's administrative costs.

Finally, issuers who meet CDS's requirements may consider direct CDS participation, the benefits of which may – depending on an issuer's specific needs – reduce overall costs and offset the additional costs of the proposed E&CA event management fees.

However an issuer chooses to allocate its administrative resources in respect of the foregoing options, CDS intends to work with issuers to ensure their most efficient use.

CDS has benchmarked its proposed fees, and their structure, against its global comparators (including DTCC, CDS's closest comparator, and other market infrastructure organizations similar in size, scope and target market), and strongly believes that its services are reasonably and competitively priced.

Additional detail with respect to CDS's international comparators can be found in the section entitled "Comparison to International Clearing Agencies", below.

#### Contractual Framework

The mechanism by which CDS proposes to levy the Issuer Services fees varies according to the nature of the security and the nature of the relationship between CDS and the issuer. There are three general categories:

1. Issuers who have appointed an LP TA Participant in CDS, or who have executed the BEO SSA, or who are also CDS Participants themselves.
2. Issuers having appointed a Transfer Agent which is party to a standard form CDS Transfer Agent Agreement.
3. Issuers acting as their own Transfer Agent or otherwise not party to an agreement with CDS.

Fees, expenses and other charges are routinely passed through financial intermediaries in Canadian and global markets, and this model is consistent with the efficient operation of the indirect holding system. For example, CDS currently collects fees from CDS Participants on behalf of Transfer Agents in the approximate amount of \$12mm per year.

CDS intends to collect Issuer Services fees in several ways, including via billing Transfer Agents, by direct invoicing of issuers, and through existing CDS web services offering credit card payment, depending on the nature of the security, the nature of the service, and the nature of the relationship between CDS and the issuer.

## THE FEE SETTING PROCESS

### Pricing Principles

The proposed E&CA Services fees, like the 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.

### Consultation

CDS has consulted with a wide variety of stakeholders to confirm 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, account for the requirements of a broad spectrum of securities-issuing constituencies, and align with both domestic and global benchmarks. The proposed amendments consist principally of the introduction of event management fees and optional agency fees.

In the present proposal:

*CDS has acknowledged concerns that the previously proposed fees were inconsistent with CDS's regulatory framework, did not align with principles of efficiency, fairness, and transparency, and were structured in a complex way that does not allow for adequate analysis of financial impact.* The proposed fees are transparent and align with CDS's stated pricing principles. They promote efficient behaviour and invite issuer agents to take a more active role in managing issuers' payments through agency fees, are fairly applied to all issuers and all issuer events, have been designed in a way that allows issuers to rapidly assess their future costs, and make the capital markets more efficient.

*CDS has acknowledged concerns that the 2014 Notice mischaracterized to whom the benefit of the services accrue; that only Participants benefit from the distribution of payments to their accounts and use of CDS facilities.* CDS provides quantifiable value when an issuer or its agent uses CDS's infrastructure to facilitate the payment of Entitlements and Corporate Actions to its shareholders. Our services reduce the risk and cost to the issuer or agent of, for example, lost certificates, missed elections, and lost cheques for entitlement payments, and dramatically increase the speed and efficiency of market operations. Immobilization of securities at CDS aggregates the securities to one holder, eliminates paper-based labour intensive processing by issuers or agents, reduces costs for re-registration, cancellation and issue of new certificates and every time an event takes place CDS's electronic payment systems are reliable, fast and seamless. While some of these benefits, particularly where CDS's services reduce certain administrative processes, accrue to the issuer's agent and may not be passed on to the issuer, the issuers themselves, particularly certain sovereign issuers, do derive direct benefit from CDS's efficiencies and economies of scale.

There are identifiable processes which CDS completes, as the E&CA processor, and which do not fall to issuers: CDS monitors events, maintains holders of record, collects and manages announcement information, validates details for accuracy and completeness, monitors responses against deadlines, instructs agents of responses, calculates entitlements, facilitates the delivery of proceeds and assists tax withholding as required. Issuers derive significant value – in the form of reduced expenses - from these services.

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

#### Alternative Considered

In addition to the availability of competitive service providers, CDS also considered several alternative fee structures.

CDS first considered the status quo, in which CDS continues to absorb the approximately 50 percent revenue shortfall associated with E&CA event management processes. This option was considered untenable, and could result in CDS's having to move to a depository-only model in which E&CA event management is handled entirely outside the depository.

Second, CDS considered charging E&CA Service fees only to Participants instead of to issuers. This alternative, however, does not address the inherent imbalance between stakeholder groups; issuers would continue to receive the benefit of E&CA Services, without charge, at the expense of Participants. It is inequitable, and contrary to the spirit of CDS's global public interest mandate, to provide services to one stakeholder group at the expense of another. In principle, CDS is of the view that while Participants pay for the distribution of payments to their accounts, issuers, who benefit from the reduced cost and risk offered by CDS, should pay for the use of a centralized electronic platform for disseminating the details of their shareholder-related activities (Entitlements or Corporate Actions), for CDS's management of their event(s) through to payment (including collecting shareholder instructions) and for CDS's provision of a low-risk, high efficiency platform for distributing those payments of cash and securities.

CDS also considered entering into specific and individual contractual relationships with, and levying fees against, each securities issuer. This alternative, however, is not feasible; creating a wholly new contractual framework for all issuers would be complex, time-consuming, and financially burdensome to all stakeholders. Issuers who have appointed Transfer Agents have done so, in part, to manage their share register as well as an issuer's relationships with securities intermediaries and shareholders, and establishing direct relationships with issuers (numbering over 7,000 in Canada) would be inconsistent with these existing relationships, and may reduce, rather than enhance, market efficiency.

#### **COMPARISON TO INTERNATIONAL CLEARING AGENCIES**

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 generally. While many of CDS's comparators do provide issuer services, it is not uncommon that central securities depositories actually play no role in the management of E&CA activities.

The relationship between depository and issuer include: issuer-as-participant; issuer-via-participant (or other agent); or issuer, directly.

Issuers on SGX (Singapore), at DTCC (United States), and at SIX (Switzerland), for example, must use participant intermediaries to represent them at the issuance stage and often over the course of a security's existence. In contrast, STRATE (South Africa) has a specific 'Issuer' participant category which directly binds issuers to STRATE's rules and pricing.

CDS, by contrast, does not have a specific issuer-as-Participant category; CDS allows issuers or their legal counsel to apply for security eligibility without involving an intermediary bound by CDS's Participant Rules.

As a consequence of the dramatic variation in market structures and entity sizes, like-for-like comparison of services is complex.

In the case of the United States and DTC, for example, issuers (including municipalities) are not charged in a fashion directly parallel to CDS's proposed fees, for several reasons: First, Issuers themselves – through the member representing them (issuers *must* appoint a participant to interact with DTC on the issuer's behalf) - are charged fees in that regard (a structure which does not exist in CDS's case). Second, the scale of DTC's operations is such that the two markets are not comparable (DTC has over 1.3 million securities eligible, while CDS only has 74 thousand; DTC securities holding value is approximately \$45 trillion, while CDS's holding value is approximately \$4.6 trillion; and DTC processed approximately \$1.5 quadrillion dollars in securities transactions in 2015, whereas CDS processed 1/10<sup>th</sup> that volume - approximately \$125 trillion). Finally, it is also of note that in 2013 & 2015, DTC introduced agent fees for some event types; fees for consent-required event types range from \$260 to \$2,600 CAD per event and fees to manage a corporate action event are \$1,280 CAD per event. These fees are charged to the agent acting on behalf of the issuer.

While the variety of issuer/CSD structures and relationships preclude direct concordance with CDS's proposed fees for Issuer Services, CDS's review of global benchmarks and publicly available fee information for its comparators reveals that E&CA event management is already entrenched in international jurisdictions' fee structures.

In comparison to CDS's maximum per-event charge of \$250 (fees are reflected in Canadian dollars):

- Indéval (Mexico) and STRATE charge issuers between \$370 and \$2,000 for mandatory and voluntary corporate action event processing;
- SGX charges over \$4,000 per mandatory or voluntary event;
- VP Securities in Denmark charges a basic corporate action fee of approximately \$2,900;
- Euroclear Sweden charges issuers between \$75 and \$6,000 per event for entitlement event payment services.
- DTCC's corporate action fees are categorized by transaction type and, as noted above, its issuers' agents are charged for "consent only" events in a range from \$260 to \$2,600 per event.

With the exception of DTC, all of the above entities operate on a for-profit basis.

## **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 or the Autorité des marchés financiers' Bulletin to:

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

Telephone: 416-365-3573  
Email: snagy@cds.ca

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

M<sup>e</sup> Anne-Marie Beaudoin  
Secrétaire générale  
Autorité des marchés financiers  
800, square Victoria, 22<sup>e</sup> étage  
C.P. 246, tour de la Bourse  
Montréal (Québec) H4Z 1G3  
Télécopieur: (514) 864-6381  
Courriel: [consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)

Manager, Market Regulation  
Market Regulation Branch  
Ontario Securities Commission  
Suite 1903, Box 55,  
20 Queen Street West  
Toronto, Ontario, M5H 3S8  
Fax: 416-595-8940  
e-mail: [marketregulation@osc.gov.on.ca](mailto:marketregulation@osc.gov.on.ca)

Doug MacKay  
Manager, Market and SRO Oversight  
British Columbia Securities Commission  
701 West Georgia Street  
P.O. Box 10142, Pacific Centre  
Vancouver, B.C. V7Y 1L2  
Fax: 604-899-6506  
Email: [dmackay@bcsc.bc.ca](mailto:dmackay@bcsc.bc.ca)

Bruce Sinclair  
Securities Market Specialist  
British Columbia Securities Commission  
701 West Georgia Street  
P.O. Box 10142, Pacific Centre  
Vancouver, B.C., V7Y 1L2  
Fax: 604-899-6506  
Email: [bsinclair@bcsc.bc.ca](mailto:bsinclair@bcsc.bc.ca)

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

**Appendix A: Proposed CDS Clearing E&CA Fees**

Existing Code	Proposed Code	Existing Fee	Proposed Fee Description	Proposed Fee Effective May 1/17	Change Description	Transition Fee Effective Nov 1/16	Government Debt Effective Nov 1/16	Municipal Serial Bonds Effective Nov 1/16	Upfront Payment with 20% Discount Effective Nov 1/16		
new	4771	No Fee	Event management-MM interest and maturity	\$10	Charge per event	\$5	Government debt securities deposited with CDS prior to the November 1, 2016 are not subject to the proposed fees for the life of those securities. Changes to the security prior to maturity may result in additional charges.		All fixed term securities, including Government debt, have the option for up-front payment of the fees and the fees are discounted at a rate of 20 percent from the total cost of the fees over the life of a fixed term security. Changes to the security prior to maturity may result in additional charges.		
new	4772	No Fee	Event management-NHA Interest	\$10	Charge per event	\$5					
new	4773	No Fee	Event management-NHA Maturity	\$10*	Charge per event	\$5					
new	4774	No Fee	Event management-Interest	\$100	Charge per event	\$50					
new	4775	No Fee	Event management-Maturity	\$100**	Charge per event	\$50					
new	4776	No Fee	Event management-Dividends	\$100	Charge per event	\$50					
new	4777	No Fee	Event management-Mandatory no option	\$250	Charge per event	\$125					
new	4778	No Fee	Event management-With choice	\$250	Charge per event	\$125					
new	4780	No Fee	Event management-Paying agent	\$50	Charge per event where CDS manages payment release	\$25				Interest payment agency fees for new issues are not applicable to municipal serial bonds	Applicable to upfront Payment with 20% discount
new	4781	No Fee	Event management-Depository agent	\$100	Charge per event where CDS manages the event as the depository agent	\$50					Not applicable

Note: All fees are in Canadian Dollars

\* NHA Maturity Events were priced at \$20/event in the 2014 Notice.

\*\* Maturity Events were priced at \$150/event in the 2014 Notice.