



TD Securities
TD Bank Group
Ernst & Young Tower
222 Bay Street, 7th Floor
Toronto, Ontario M5K 1A2

Susan Greenglass
Director, Market Regulation
Ontario Securities Commission
20 Queen Street West
Suite 1903, Box 55
Toronto, Ontario M5H 3S8
marketregulation@osc.gov.on.ca

via e-mail

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Re: CSA Staff Notice and Request for Comment 23-323 Trading Fee Rebate Pilot Study

Dear Sirs and Mesdames:

TD Securities Inc. welcomes the opportunity to comment on CSA Staff Notice and Request for Comment 23-323 - Trading Fee Rebate Pilot Study.

TD Securities Inc. is a leading securities dealer in Canada and a top ranked block trader in Canadian equities and options based on both dollar value and shares/contracts traded. TD Securities Inc. also acts as the executing dealer for TD Waterhouse, the second largest brokerage firm in Canada.

TD Securities Inc. Supports the Pilot Study

We are in support of the proposed rebate study in Canada and believe the academics helping to design the "Made in Canada" features have done a tremendous job to date. The academics spoke to the industry at large, solicited feedback and listened to users in crafting the final proposal.

The CSA Trading Fee Rebate Pilot Study Request for Comment comes at an interesting time for Canadian participants. For close to a year, Canadians have been spectators to the contentious industry debate south of the border over the SEC's request for comment for a US access fee pilot. As such, we have an idea where various participants sit in terms of the need for the pilot.

Industry responses to the US pilot proposal were mostly divided along business lines with commercially motivated parties opposed to a proposal that could negatively impact the

bottom line – see most exchanges and market makers. Institutional investors were unanimously in favor of the study.

It is likely that Canadian participants will also be divided along business lines and that some marketplaces and market makers might suggest waiting until after the US study concludes to consider a "Made in Canada" response. At the very least, these participants will encourage the CSA to slow down and not try to get ahead of the US on non-inter-listed names as suggested. We hope that the CSA will see through commercial interests and move forward with its study on its own terms.

The SEC deserves a lot of credit for weeding through the noise from commercially motivated commenters and honing in to side with the non-conflicted institutional asset owner and asset manager point of view. While some institutional investor respondents had minor technical differences in views, the overarching opinion was "let's study the impact of rebates to see if behavior is impacted."

While the issue of routing conflict is cited most often as the driver of this study, we believe that market structure simplification will be the most important benefit of a zero rebate equity trading environment.

Today's Canadian equity market structure is complex. Commercially motivated marketplaces design market models for bespoke user needs, mostly intermediaries. These marketplaces add features that motivate parties to route the flow that intermediaries want to see and discourage order flow from other parties (see non-symmetric speed bumps and inverted fee structures).

No one can blame a commercially motivated marketplace for designing solutions catered to its customers. It is just that its customers are most often intermediaries and not institutional investors.

Taken in sum, the end market structure is overly complex and results in un-necessary intermediation, an implicit tax that is paid for in part by institutional investors with child orders that must navigate across this complex landscape to find the other side of its trades.

One aspect of the debate over the pilot that has not received a lot of attention is the fee structures that marketplaces will introduce for stocks in the zero rebate bucket.

With commercial interests in mind, we expect the main exchange providers with multiple marketplaces to set one market at zero cost to providers of liquidity and a few mils charge for the takers. Meanwhile, for its other marketplaces, access to liquidity will be free and the provider will be charged a small fee.

Importantly, the difference between fee structures across venues for zero rebate stocks will be somewhere in the three to four cents per 100 share range (or three or four one hundredths of a cent), a far cry from the existing difference of close to ½ cent.

This outcome will significantly reduce the likelihood that natural investor orders providing liquidity will un-necessarily reside on marketplaces that are not preferenced by liquidity takers because of economics. Today intermediaries are required to link together these marketplaces and charge a rent for the service provided.

With rebate capture no longer a priority for short term intermediaries, we expect shorter order book queues that will mean greater passive fill rates for natural investor orders. This should result in better execution quality.

If we are correct that un-necessary intermediation will be reduced without rebate incentives, then overall market volumes will decline. However, market liquidity will not be impacted. Instead, there will be less steps needed for two parties interested in a risk transfer to complete this process. Given that marketplaces get paid by volume of trade and more volume makes data products more valuable and intermediaries long market structure benefit from complexity, this could explain the reluctance of these parties to embrace the rebate study.

One area of debate in the industry is the impact on spreads in a market structure world with no rebates. On the one hand, with natural orders in the book that want to trade at the posted market and previously sat at the back of a long queue, there is no guarantee spreads will widen as these orders remain.

On the other hand, even if spreads do widen marginally, the resulting bid-ask will represent a truer market in the absence of quotes pregnant with rebates that are earned by agents or intermediaries and not the end investor.

Specific Comments on Proposal

We support the design of the study and will trust the judgement of the academics to pick pairs of securities for the zero rebate bucket and control group and to determine the proper metrics for analysis.

We like the breadth of the study which was widened after feedback from participants.

We support the idea that the study for non-inter-listed stocks can start ahead of the US pilot.

We like the fact that there will not be an issuer opt out.

Finally, we are pleased to see the level of coordination between the SEC and CSA when it comes to Canadian based inter-listed securities, the lifeblood of our market.

That said we sure hope the SEC promise to place all Canadian inter-listed securities in the control group does not encourage Canada to sit on the sidelines and watch the US study. Fear mongering that market quality will worsen for the zero rebate stocks is overblown.

We stress again that the views of the un-conflicted institutional investor community with agency best execution concerns needs to be considered first and foremost by Canadian regulators. This was the case with the SEC in the US and it should also be the case for the CSA in Canada.

Important Aspects of Study Worth Monitoring

We have concern that some third party vendors providing execution management services to dealers will not be able to put in routing guidelines at the single stock level. This change will be essential in order to differentiate control group routing from routing of zero rebate stocks. Without industry adoption during the pilot study, the quality of data for academics to study will be weakened.

Answers to Specific Questions

1. We believe the definition of medium liquid is appropriate and support the much broader nature of the study than was first suggested by Canadian academics.
2. We support starting the Canadian study for non-inter-listed names ahead of the US in order to provide academics with more data for analysis.
3. The current market making programs generally offer three types of incentives to market makers:
 - a. The standard rebate available to all market participants
 - b. An additional rebate incentive for market makers only (generally 2 – 8 mils above the standard rebate), or a reduction in active fees
 - c. A fixed monthly payment per security based on performance goals.

The pilot program will eliminate the standard rebate available to all market participants. We think this treatment should also apply to market makers to clearly separate the control group from the test group. If market makers continued to receive the standard rebates, then it would create a two-tiered

market, blur the impact of the study, and potentially create cases where the active fee paid on a trade was dependent on whether the counterparty was a market maker or not.

We are supportive of leaving the additional rebate incentives and active fee discounts in place to encourage market makers to provide liquidity. We suggest these incentive rebates (or fee discounts) be capped at an 8 mil rebate to reflect current market practices. Given that we expect marketplaces to charge access fees in the low single digits, then trades with market makers earning higher rebates would be a cost to marketplaces. This is the case in some instances today with existing market maker incentive programs.

We are also supportive of leaving the fixed monthly performance payments in place as these are not volume based and are unrelated to make/take fees.

We recommend that the spread obligations for existing market making programs be reset on the pilot launch date to give market makers an opportunity to recalibrate to the new fee economics.¹

Bottom line – market maker programs should not be utilized by certain participants to arbitrage the structure of the rebate study.

4. We believe the time horizons suggested are reasonable.
5. We believe that any analysis that shows the difference in queue length for resting orders as a result of comparisons of like rebate vs non-rebate stocks will be valuable information. We hope the academics will also be able to analyze the type of order flow in each queue and how it changes over time from placement of a natural investor order to execution.
6. We support the use of the metrics discussed already.
7. We are sympathetic to the concerns of ETF issuers that placement of specific ETFs in buckets different from competing like products might change the competitive dynamics between two products. However, given the decision by the

1. *Please note that TD Securities Inc. acts as a Registered Trader for several issuers likely to be included in the study.*

SEC to include ETFs randomly, we believe Canada should follow suit and also include ETFs in the pilot study. Our concern is that without ETFs in the study, this could prompt regulators to keep rebates intact for ETFs and thus create a two-tiered market structure for fees, one for stocks and another with rebates for ETFs.

Conclusion

We commend the CSA and its academic partners for its work in putting together the pilot study on access fees. The proposal is comprehensive and reflects feedback from industry. Most importantly, it is aligned with the views of the one non-conflicted party in today's equity market ecosystem. That is the institutional investor.

Thank you for the opportunity to comment on this important proposal and I would be happy to answer any follow up questions.

Regards,



Peter Haynes
Managing Director
TD Securities Inc.
416-944-5385
Peter.haynes@tdsecurities.com