



Via Email

March 1, 2019

British Columbia Securities Commission
Alberta Securities Commission
Financial and Consumer Affairs Authority of Saskatchewan
Manitoba Securities Commission
Ontario Securities Commission
Autorité des marchés financiers
Financial and Consumer Services Commission of New Brunswick
Superintendent of Securities, Government of Prince Edward Island
Nova Scotia Securities Commission
Office of the Superintendent of Securities, Service NL (Newfoundland and Labrador)
Superintendent of Securities, Northwest Territories
Superintendent of Securities, Yukon Territory
Superintendent of Securities, Department of Justice, Government of Nunavut

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

TD Asset Management Inc. (**TDAM**) appreciates the opportunity to comment on the Canadian Securities Administrators (**CSA**) proposed Trading Fee Rebate Pilot Study that would apply temporary pricing restrictions on marketplace transaction fees applicable to trading in certain securities (**Proposed Pilot**).

On behalf of our institutional clients, TDAM would like to express our support for the CSA's Proposed Pilot and our appreciation of the CSA's efforts to study and improve market quality for investors, including the extensive industry consultation that the CSA undertook to inform the proposed study. We believe that the Proposed Pilot will help the CSA to identify any issues more accurately and to focus on those that matter most. Further, we believe that investors will benefit substantially from a holistic evaluation of market quality. To that regard, we urge the CSA to finalize the study and initiate the Proposed Pilot as soon as possible to determine the magnitude of any harms or negative influence that trading fees and rebates may have on Canadian markets and to gather data that will help inform regulatory action to mitigate or address them.



Please note that this comment letter represents the views of TDAM and does not necessarily reflect the views of The Toronto-Dominion Bank or its subsidiaries.

TDAM's Response to the Specific Questions of the CSA Relating to the Proposed Pilot

In the attached Appendix, we have provided responses to questions 2 and 7 from Appendix II of the Proposed Pilot.

We appreciate the opportunity to provide comments on the Proposed Pilot. We recognize the importance of collaboration between industry members and regulators to advance the interests of Canadian investors through marketplace fee structures that are fair and transparent.

We welcome the opportunity to provide additional detailed commentary through in-person discussions with CSA staff.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Bruce', followed by a large, stylized flourish.

Bruce Cooper
CEO and CIO
TD Asset Management Inc.



Appendix II: Questions for Market Participants

2. We propose to introduce the Pilot in two stages, with non-interlisted securities first, followed by interlisted securities. Do you believe that such staggered introduction will cause material problems for the statistical analysis and the results of the Pilot? If so, please describe your concerns in detail.

TDAM supports the introduction of the Proposed Pilot in two stages. We also support starting the Proposed Pilot with Canadian securities (stage one) then moving on to interlisted securities (stage two). By proceeding in this manner, institutional managers (such as TDAM) will find it easier to interpret and apply data from the Proposed Pilot.

7. We have had extensive discussions with a number of market participants on whether to include exchange-traded products (ETPs) in the Pilot, and some participants suggest that such an inclusion is warranted. Nevertheless, others point out that trading characteristics of ETPs are substantially different from those of corporate equities and including ETPs will present significant challenges in the matching stage and will likely confound the results in the analysis stage.

These participants and our own research identify the following concerns:

- most liquidity in ETPs is determined and provided by contracted market makers, and the ETP creation/redemption process represents its own source of liquidity;*
- matching characteristics that we propose to use for corporate equities do not have the same meaning for ETPs. For instance, ETP fund size is not a relevant metric, and ETP trading volume is usually not correlated with quoting activity or liquidity;*
- spillover effects of two types may confound the results. First, liquidity in ETPs relates to liquidity of the underlying basket of securities, and if the basket is significantly affected by the Pilot, the ETP will be affected too. Second, ETPs that follow the same baskets may be viewed not only as good matches, but also as substitutes for investment, hedging, and trading purposes. If one of them is selected to be treated, and the other is not, market participants may move between products, potentially confounding the results of the Pilot.*

The above-mentioned concerns make finding matched ETP pairs a uniquely challenging task. To the best of our knowledge, there is no established procedure for matching ETPs to study their trading costs.

As such, in relation to ETP inclusion, we ask that market participants consider the following questions: Given the challenges that ETP matching presents, can the goals of the Pilot be achieved without including ETPs in the sample? If ETP inclusion is important, can you propose a way to construct a matched sample that addresses the concerns identified above?

TDAM generally agrees with the exclusion of ETPs from the Proposed Pilot as ETPs trade very differently from corporate equities. Further, although ETPs may be subject to routing related conflicts of interest, it is unclear whether the Proposed Pilot as currently designed will be able to provide high quality insights into potential routing conflicts for those instruments. Although TDAM agrees that the pairing of ETPs cannot be done in the same manner as corporate equities, TDAM does not support a randomized



approach when it comes to ETPs because "fairness" should not be the sole rationale considered. TDAM supports the CSA's further consideration of ETPs (as well as options and futures) but suggests that this may be better accomplished in the context of a broader study on derivatives routing conflicts of interest.