



August 12, 2016

Stephen Nagy
Managing Director, SIES
CDS Clearing and Depository Services Inc.
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Dear Mr. Nagy:

This letter is submitted on behalf of the Canadian Exchange-Traded Fund Association (the "CETFA"). Based in Toronto, Ontario, the CETFA is the sole exchange-traded fund ("ETF") association in Canada and represents Canadian ETF providers accounting for approximately 95% of all assets under management of Canadian ETFs as of June 30, 2016.

We appreciate the opportunity to provide our comments on the paper that was issued on July 14, 2016 on behalf of CDS Clearing and Depository Services Inc. ("CDS") with respect to certain proposed fee amendments entitled "*CDS Clearing and Depository Services Inc. Proposed Amendments to CDS Fee Schedule RE Entitlements & Corporate Action Events Management*" (the "Proposal").

For reference, we have attached a copy of our comment letter dated December 12, 2014, which was submitted in response to the fee amendment proposal made by CDS in 2014 and subsequently withdrawn (the "Prior Proposal"). Many of the comments set out in our earlier comment letter regarding the Prior Proposal are equally applicable to the Proposal and, where applicable, are incorporated herein by reference.

As a general comment, it appears that the fees set out in the Proposal remain largely unchanged from those in the Prior Proposal. In particular, we note that for a single distribution transaction by an issuer with a dividend reinvestment plan ("DRIP") option the proposed fee remains \$250. On its face, this may seem like a relatively small fee, however many of our members manage dozens of ETFs, each of which may pay a monthly distribution with a DRIP option. Using the example of a Canadian ETF provider with a family of 90 Canadian ETFs, each with a monthly distribution with a DRIP option, we note that the aggregate fees payable to CDS (either by the manager or the ETF, depending on the cost structure of the ETF) would aggregate to \$270,000 ($\$250 \times 90 \times 12$) annually, where previously no fees were incurred. This amount would increase, potentially significantly, where the ETFs offer more than a single class of units. Unfortunately, and to the detriment of Canadian investors, this level of additional cost may negatively impact the ability of Canadian ETF providers to offer ETFs with



monthly distributions and/or DRIP options within the low MER environment which is characteristic of Canadian ETFs.

Importantly, you note in the Proposal that there are “multiple viable options” available to issuers if they are not satisfied with CDS’ fees. We respectfully submit that while this may be possible in theory, it is not the case in practice. In reality, Canadian ETF providers have no choice but to deal with CDS with respect to most transactions such as the settlement of distributions as described in the paragraph above. In effect, CDS is a monopoly provider of these services and the introduction of any proposed fees or fee increases should be considered in that context.

In that connection, Appendix “A” of the Proposal indicates that issuers of fixed income securities will be offered a 20% discount if the annual fees to CDS are paid up front. As CDS has indicated in the Proposal that it will keep its fees fair and equitable for all issuers, we request that CDS confirm that the proposed discount will not result in any increased fees for other industry participants. Also, we would expect that any such discount would be made available on substantially the same basis to ETF issuers.

Finally, we understand that fees for switches and systematic withdrawal plans were omitted from the Proposal in view of continuing discussions between CDS and CEFTA members regarding the automation of those services under an alternate fee structure. However, regardless of the outcome of those discussions, we respectfully submit that any proposed new fees (or any increases in existing fees) in respect of such services should still be circulated to all industry participants for comment and submitted for approval by the Canadian Securities Administrators before being implemented.

Thank you for giving us this opportunity to comment on the Proposal. We would be happy to discuss our comments and the Proposal with you at your convenience.

Yours truly,

Patricia Dunwoody
Executive Director
Canadian ETF Association

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December 12, 2014

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Dear Mr. Nagy:

This letter is submitted on behalf of the Canadian Exchange-Traded Fund Association ("CETFA"). Based in Toronto, CETFA is the sole exchange-traded fund ("ETF") association in Canada and represents numerous Canadian ETF Providers.

CETFA appreciates the opportunity to provide comments on the *CDS Clearing and Depository Services Inc. Proposed Amendments to CDS Fee Schedule RE Issuer Services Program Notice and Request for Comment* ("Proposal").

Over the last several years, the ETF industry has introduced several services to appeal to investors and to support them with their investment plans. These include monthly and/or quarterly distributions, distribution reinvestment plans ("DRIPs"), pre-authorized cash contributions ("PACCs") and systematic withdrawal plans ("SWPs"). Under the proposed fee increase each of these "events" will have a fee associated with it – possibly making the service too costly for the Provider to offer. You note in the Proposal that *"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."* We would like to see specific examples of the calculations of these fees based on those firms that have monthly distributions and DRIPs. For example we calculate that if an ETF Provider offered 70 ETFs, their average annual fee could be over \$50,000.

It is mentioned that *"CDS's analysis also indicates that in 2013, only 2,850 of 7,400 Canadian issuers (approximately 39 percent) whose securities were deposited at CDS paid an entitlement or ran a corporate action event. Consequently, 61 percent of issuers would not have been impacted by the proposed E&CA event management fees."* In general, CETFA believes that it is not appropriate for entities such as CDS to compare listing and corporate action event history of ETF providers to those of regular corporate issuers. Whereas a corporate issuer may have one listing with four dividend announcements annually, an ETF Provider can have several dozen listings and hundreds of corporate



action declarations annually. Being subjected to the same fee schedule as corporate issuers is, in our estimation, unreasonable and potentially onerous on the operational costs ultimately borne by unitholders of the ETFs. CETFA would like to see similar statistics as the ones disclosed in the statement above, to be provided by CDS, for ETF Providers specifically without inclusion of corporate issuer data. This will give a much clearer indication as to the prevalence of corporate action events amongst ETF Providers and the associated costs and impact one can expect.

We also do not believe that it is appropriate for the transfer agencies to be charged with collecting these fees from the ETF Providers – this adds an administrative burden to them that they will have to manage. It also raises concerns that any dispute regarding the fees would have to be negotiated directly between the issuer and CDS, as the transfer agency would not be in a position to validate CDS's invoices. This leads us to question CDS's justification for proposing that this role be assigned to the issuer's agent.

While we appreciate that CDS has costs associated with these transactions, the Providers have no choice but to deal with CDS for the settlement of their products and we believe that an appropriate comment period of 90 days should have been offered, allowing individual firms the chance to understand and respond to the impact of the changes.

Thank you for this opportunity and we welcome any further discussions regarding this proposal.

Yours truly,

Patricia Dunwoody
Executive Director
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