

February 22, 2019

Submitted via electronic filing: comments@osc.gov.on.ca; consultation-en-cours@lautorite.qc.ca

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, 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
Superintendent of Securities, Department of Justice, Government of Nunavut

Attention:

The Secretary
Ontario Securities Commission
20 Queen Street West
22nd Floor
Toronto, Ontario M5H 3S8

M^e Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, rue du Square Victoria, 22^e étage
C.P. 246, tour de la Bourse
Montréal (Québec) H4Z 1G3

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

Dear Sirs/Mesdames:

A. About BlackRock

BlackRock Asset Management Canada Limited (“**BlackRock Canada**”) is an indirect, wholly-owned subsidiary of BlackRock, Inc. (“**BlackRock**” or “**we**”) and is registered as a portfolio manager, investment fund manager

and exempt market dealer in all the jurisdictions of Canada, a commodity trading manager in Ontario, and as an adviser under *The Commodity Futures Act* (Manitoba).

BlackRock is one of the world's leading asset management firms, managing assets for clients in North America and South America, Europe, the Middle East, Africa, Asia and Australia. Our client base includes corporate, public, multi-employer pension plans, insurance companies, mutual funds and exchange-traded funds, endowments, foundations, charities, corporations, official institutions, banks and individuals around the world.

B. General Observations

As we noted in our *ViewPoint* on U.S. equity market structure, the magnitude of trading fees and rebates relative to other transaction costs creates a conflict of interest for brokers in routing client orders and perpetuates market fragmentation and complexity.¹ We believe the same concerns are present in Canadian equity market structure. BlackRock believes that lowering fees and rebates would reduce their distortive effect on order routing, price transparency and market quality. Furthermore, this may mitigate fragmentation and ease burdens for investors by leading to a reduction in marketplace complexity.²

BlackRock welcomes a study of the impact of trading fees and rebates in Canada and commends the Canadian Securities Administrators (“CSA”) for its ongoing efforts to foster fair and efficient capital markets. We strongly support the objectives of the Pilot and believe that a study would provide policymakers with valuable evidence for further rule making. We also applaud the CSA and the US Securities and Exchange Commission for the degree of coordination demonstrated in their handling of inter-listed securities to minimize any impact from disparate fee / rebate regimes.

Beyond this overall endorsement, we present additional perspective on specific aspects of the Pilot in greater detail below for your consideration.

C. BlackRock's Responses

Generally, we believe that exchange-traded products (“ETPs”) should be subject to the same final ruleset on trading fees and rebates as equity securities, to the extent that such regulations appropriately contemplate the distinctive nature of ETPs. However, BlackRock believes that ETPs should be excluded from the Pilot unless similar or lookalike products can be included in an equitable or consistent manner for purposes of the Pilot. The ETP industry is fiercely competitive with multiple issuers offering comparable products tracking similar underlying benchmarks. Given the efficacy of rebates and incentives in attracting liquidity and promoting price discovery, a fundamental concern is that market participants will move their investment activity between substitutable ETPs which are placed in different test groups. In addition to creating a competitive disadvantage across different products, this will confound and likely exacerbate the results of

¹ BlackRock, *ViewPoint – US Equity Market Structure: An Investor Perspective*, (Apr. 2014), available at <http://www.blackrock.com/corporate/en-us/literature/whitepaper/viewpoint-us-equity-market-structure-april-2014.pdf>.

² BlackRock, Letter from Richie Prager, Head of Trading and Liquidity Strategies, to SEC Chair Mary Jo White (Sep. 12, 2014), available at: <https://www.blackrock.com/corporate/literature/publication/blk-equity-market-structure-letter-sec-091214.pdf>.

the Pilot. Further, as highlighted in the proposal, the matching characteristics used to construct test groups do not conform well for ETPs due to their intrinsic nature and mechanisms such as the creation/redemption process.³ The validity of any findings may be spurious if the Pilot does not properly control for selection bias between the treatment and control samples.

BlackRock supports the CSA's proposal to focus the analysis on highly liquid securities. This is the segment of the Canadian market where dealer intermediation is most elevated and the distortive effect of fees and rebates should be mitigated. However, we also recognize that for illiquid securities the benefit provided by incentives may outweigh any negative impact. Rebates may improve market quality for thinly-traded securities by attracting liquidity and compensating market makers for exposing their orders to information leakage and adverse selection. The optimal market structure may not be a "one-size-fits-all" approach, but a tiered model where the level of fees and rebates depends upon the liquidity, price or bid-ask spread of a security. Further, incentives which are higher than existing rebates may be warranted to enhance liquidity and market quality for the most illiquid segment of the market.

D. Conclusion

BlackRock thanks the CSA for this opportunity to provide input upon and express our support for the trading fee rebate pilot. We would be pleased to make appropriate representatives available to discuss any of these comments with you at your convenience.

Sincerely,

"Margaret Gunawan"

Margaret Gunawan
Managing Director, Head of Canada Legal & Compliance

"Hubert De Jesus"

Hubert De Jesus
Managing Director, Global Head of Market Structure and Electronic Trading

³ "[The] matching characteristics that we propose to use for corporate equities do not have the same meaning for ETPs." CSA Staff Notice 23-323, Trading Fee Rebate Pilot Study. December 2018, available at http://www.osc.gov.on.ca/en/SecuritiesLaw_csa_20181218_23-323_trading-fee-rebate-pilot-study.htm