



February 26, 2019

Via Email

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

Delivered to:

The Secretary, Ontario Securities Commission  
[comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)

M<sup>e</sup> Anne-Marie Beaudoin  
Corporate Secretary, Autorité des marchés financiers  
[Consultation-en-cours@lautorite.qc.ca](mailto:Consultation-en-cours@lautorite.qc.ca)

Re: CSA Staff Notice and Request for Comment 23-323  
*Trading Fee Rebate Pilot Study*  
*(the "2018 Notice")*

Dear Canadian Securities Administrators ("CSA"),

Ontario Teachers' Pension Plan ("OTPP"), the undersigned Canadian pension plans and Global asset managers, submit this comment letter to express our support for the Trading Fee Rebate Pilot for Canadian listed securities ("Pilot") proposed by the CSA in the 2018 Notice.



Collectively, this group of Canadian asset owners, with over 21 million members and approximately \$1.2 trillion in assets, is committed to working in the best interests of our plan members, and as a result, has a deep interest in market structure reform that enhances our ability to pay pensions and invest plan assets on behalf of our members and beneficiaries. The long-term nature of our investments and liabilities, and our responsibilities as a fiduciary to our members, drive our interest in rules and regulations that govern the securities markets.

In recent history, technical advancements and regulatory rulemaking have attempted to increase market competition and lower trading costs. Unfortunately, this has resulted in increased market complexity and various unintended consequences, and long term investors have borne the cost of this change in market structure.

A controversial element of this complex market structure is the practice of exchanges paying rebates to broker members for order flow, otherwise referred to as maker-taker or taker-maker pricing. These pricing schemes as well as other fee incentives, have been generally criticized or questioned by a wide spectrum of asset managers, pension funds, academics and policy makers, including the CSA, based on a potential conflict of interest they create between brokers and their investor clients.

In fact, in 2014, the CSA published a Notice and Request for Comment, whereby it expressed its view that the payment of rebates by a marketplace is changing the behaviour of marketplace participants. As outlined in the Background section of the 2018 Notice, the payment of rebates may be:

- creating conflicts of interest for dealer routing decisions that may be difficult to manage;
- contributing to increased segmentation of order flow; and
- contributing to increased intermediation on actively traded securities.

We applaud the CSA for acknowledging these potential conflicts and proposing the Pilot as a necessary and appropriate step to understanding any inherent conflicts that may potentially arise for dealers and to study both changes in order routing practices and impacts on market quality measures.

We fully support the Pilot as proposed in the 2018 Notice. Further, we would like to highlight elements of the CSA's proposal in the 2018 Notice that we believe are essential to the Pilot:



**The Pilot must test the elimination of exchanges rebates** – It is critical to include a test group that prohibits the payment of rebates to create a data set that demonstrates the effect of rebates, of any size, on order routing and executing quality. Without this test group, the Pilot will be of limited use to long-term investors who question the importance of rebates to overall market quality. Also, this will allow exchanges to compete on pricing and execution quality without imposing further price controls on the market.

**The scope of the Pilot** – We are supportive of the Pilot being a sample of Canadian securities (including both interlisted and non-interlisted) from a list of high and medium liquidity securities. The Pilot proposal of approximately 210-270 stocks (140-180 in Stage 1; 70-90 in Stage 2) is sufficient and will provide an appropriate dataset. We are also supportive of the proposed 2 Stage approach of the Pilot, which will run three to six months prior to the implementation of the Proposed SEC Transaction Fee Pilot for non-interlisted stocks; and run in tandem with the Proposed SEC Transaction Fee Pilot for interlisted stocks.

**Include all Canadian marketplaces** – It is critical to include all Canadian marketplaces (including maker-taker, taker-maker exchanges and ATs) in the Pilot. This will help to eliminate distortions in routing incentives which could skew the data outputs from the Pilot. Also, we are supportive that marketplaces seeking to implement either a fee or major market structure change throughout the implementation period of the Pilot will be required to demonstrate to the CSA that such a change does not interfere with the objectives of the Pilot.

Finally, in order to maintain the integrity of the Pilot, listed issuers should not have the option to opt out. We also agree that the Pilot should not harm issuers, and in fact, some issuers may benefit by the temporary elimination of trading rebates, making them less expensive and more attractive to trade. As evidenced by the support from the co-signers of this comment letter, it should provide the necessary confidence to all listed issuers that are to be included in this Pilot.

In the Design Report for the CSA Pilot Study on Rebate Prohibition (Appendix A of the Request), the CSA has asked for additional commentary in Appendix II: Questions for Market Participants. We have provided our additional commentary to this Commentary letter as Schedule 1.

We are confident the Pilot, through the use of appropriate empirical measures and the statistical analysis described in the Design Report, will generate sufficient data to study the effects that prohibiting the payment of marketplace rebates may potentially have on any inherent conflicts for dealers, and study both changes in order routing practices and impact on market quality measures.



We therefore support the proposed CSA Pilot and would encourage the CSA to take the necessary steps to implement it in 2 stages, as outlined.

Thank you for the opportunity to comment on the Pilot.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin Duggan", written over a horizontal line.

Kevin Duggan  
Managing Director, Execution,  
Capital Markets  
Ontario Teachers' Pension Plan

A handwritten signature in blue ink, appearing to read "Richard Wan", written over a horizontal line.

Richard Wan  
Director, Trading,  
Alberta Investment Management Corporation

A handwritten signature in black ink, appearing to read "Benoît Gauvin", written over a horizontal line.

Benoît Gauvin  
Vice-President, Index Management, Trading and  
Securities Lending  
Caisse de dépôt et placement du Québec

A handwritten signature in black ink, appearing to read "Chris Roper", written over a horizontal line.

Chris Roper  
Managing Director, Head of Financing, Collateral & Trading  
Canada Pension Plan Investment Board

A handwritten signature in blue ink, appearing to read "A. Mitchell", written over a horizontal line.

Adrien Mitchell  
VP, Public Equities  
Healthcare of Ontario Plan

A handwritten signature in black ink, appearing to read "Rosanna Bruni", written over a horizontal line.

Rosanna Bruni  
Senior Director, Trading  
PSP Investments

A handwritten signature in blue ink, appearing to read "Mark Holleran", written over a horizontal line.

Mark Holleran  
VP, Equities  
Vestor

### Schedule 1: Questions for Market Participants

1. We believe the definition of both liquid and medium-liquid security is appropriate.
2. We believe that the Pilot should be introduced in two stages. We do not believe that a staggered introduction will cause material problems for statistical analysis or adverse results of the Pilot.
3. We believe that, for market making programs, exchanges should be allowed to continue using rebates or similar arrangements during the Pilot. It is important that the exchanges limit this to only designated market maker (RT) programs, and not include 'Electronic Liquidity Provider' (ELP) or like programs.
4. We believe that computing price impacts at the one and five second horizons is appropriate.
5. We believe that computing time-to-execution for limit orders posted at the CBBO prices or improving these prices is appropriate.
6. We believe that the number of market quality metrics as outlined in the Pilot is appropriate.
7. We believe that the goals of the Pilot can be achieved without including ETPs in the sample. We understand the challenges of finding matched ETP pairs for this Pilot, and we would be open to further commentary if there are viable and reasonable proposed solutions to these challenges.



The following Global asset managers support the Trading Fee Rebate Pilot Study as proposed by the CSA. This endorsement is authorized by way of signature below, as an attachment to the comment letter submitted by Ontario Teachers' Pension Plan.

Signature:           *MeMET S. KINAK*          

Name:           MEHMET S. KINAK          

Title:           GLOBAL HEAD OF SYSTEMATIC TRADING          

Firm:           T. ROWE PRICE



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The following Global asset managers support the Trading Fee Rebate Pilot Study as proposed by the CSA. This endorsement is authorized by way of signature below, as an attachment to the comment letter submitted by Ontario Teachers' Pension Plan.

Signature:

*C. Freborough*

Name:

*Carrie Freborough*

Title:

*Head Trader*

Firm:

*Mackenzie Investments*