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February 28, 2019

**VIA E-MAIL**

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, 22<sup>nd</sup> Floor  
Toronto, ON M5H 3S8  
[comments@osc.gov.on.ca](mailto:comments@osc.gov.on.ca)

Me Anne-Marie Beaudoin  
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Autorité des marchés financiers  
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C.P. 246, tour de la Bourse  
Montréal (Québec) H4Z 1G3  
[Consultation-en-cours@lautorite.qc.ca](mailto:Consultation-en-cours@lautorite.qc.ca)

Dear Sirs/Mesdames:

**Re: Canadian Securities Administrators (“CSA”) Staff Notice and Request for Comments 23-323  
*Trading Fee Rebate Pilot Study (the “CSA Paper”)***

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We are writing in response to the request for comment in the CSA Paper dated December 18, 2018, with respect to the proposed Trading Fee Rebate Pilot Study that would apply temporary pricing restrictions on marketplace transaction fees applicable to trading in certain securities (the “Canadian Pilot”).

Invesco Canada Ltd. (“Invesco Canada”) is a wholly-owned subsidiary of Invesco Ltd. (“Invesco”). Invesco is an independent investment management firm dedicated to delivering an investment experience that helps people get more out of life. As of January 31, 2019, Invesco and its operating subsidiaries had assets under management of approximately US\$930 billion. Invesco operates in 25 countries in North America, Europe and Asia. Invesco Canada is registered as an Investment Fund Manager, an Adviser and a Dealer in Ontario and certain other provinces.

### **Proposed Canadian Pilot**

In the United States, Invesco has long advocated for changes to the “market-taker” model. Invesco has expressed its concerns about the possible conflicts of interest, unnecessary complexity and reduced market transparency resulting from this model and the transaction fees and rebates currently used by U.S. marketplaces. Invesco Canada shares these same concerns with respect to the “market-taker” model in use in Canadian marketplaces, and Invesco Canada supports the Canadian Pilot.

Much has been written about the potential impact of transactions fees and rebates on routing behavior, execution quality and market quality. While there may be limitations to the data ultimately produced, the Canadian Pilot will hopefully provide the currently missing empirical evidence that supports or contradicts these concerns, and contribute to more informed policy-making and more effective regulation of marketplaces.

### **Coordination with the SEC Pilot**

Invesco Canada supports the coordination of the Proposed Pilot with the transaction fee pilot for NMS securities (the “U.S. Pilot”) that will be conducted by the United States Securities and Exchange Commission (the “SEC”). We believe that this is the only reasonable way to proceed with the Canadian Pilot given the “interconnected nature of North American markets”<sup>1</sup> and the fact that some Canadian securities are inter-listed in the United States.

### **Exclusion of ETPs from Canadian Pilot**

We have comments on the following question posed by the CSA:

*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*

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<sup>1</sup> CSA Paper, page 1

*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?*

Invesco Canada strongly supports the CSA's exclusion of ETPs from the Canadian Pilot, and the CSA's divergence from the SEC's decision to include ETPs in the U.S. Pilot.

In its comment letter to the SEC dated May 25, 2018 regarding the U.S. Pilot, Invesco expressed significant concerns about the SEC's inclusion of ETPs in the U.S. Pilot.<sup>2</sup> Invesco expressed the view that given the ways in which ETPs differ from shares of an operating company the inclusion of ETPs in the U.S. Pilot had the potential to create "winners" and "losers" amongst competing ETPs, based solely on which test group an ETP was placed in. ETPs could effectively be included in the U.S. Pilot only if similarly situated ETPs would be classified as such. Invesco noted that while this is theoretically possible, there would be real-life difficulties in doing so.

Invesco Canada echoes these concerns in regards to the potential inclusion of ETPs in the Canadian Pilot. Invesco Canada is of the view that the concerns Invesco expressed with respect to the inclusion of ETPs in the U.S. Pilot apply even more acutely with respect to the inclusion of ETPs in the Canadian Pilot given the smaller and less liquid Canadian market.

Some market participants have expressed the view that ETPs should be included in the Canadian Pilot, and have expressed concern that because ETPs are different from equity securities, data from a study that excludes ETPs should not be used as the basis for policy-making and action in respect of ETPs. We understand and appreciate this concern from a theoretical perspective. But we must deal with the realities of the Canadian market where there is a finite, limited set of ETPs. Accordingly, we agree with the decision of the academics who designed the Canadian Pilot to exclude ETPs.

While we acknowledge that there are differences between ETPs and equities, we believe that the findings from the Canadian Pilot in respect of the impact of transaction fees and rebates on equities still would be relevant for ETPs, and that expanding the scope of the Canadian Pilot to include ETPs would produce additional data of questionable value which would come at the cost of potential distortions in the marketplace.

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<sup>2</sup> Invesco's letter is at <https://www.sec.gov/comments/s7-05-18/s70518-3712175-162394.pdf>

Thank you for providing us with the opportunity to comment on this important initiative. We would be pleased to discuss our comments with you further should you so desire.

Yours very truly,

**Invesco Canada Ltd.**

*(signed) "Julianna Ahn"*

Julianna Ahn

Vice President, Legal & Associate General Counsel