



BY ELECTRONIC MAIL: comments@osc.gov.on.ca, consultation-en-cours@lautorite.qc.ca

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, 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

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

Me Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800, square Victoria, 22^e étage
C.P. 246, tour de la Bourse
Montreal (Québec) H4Z 1G3

Dear Sirs / Madames:

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

Fidelity (Canada) Asset Management ULC ("Fidelity") appreciates the opportunity to provide comments to the Canadian Securities Administrators ("CSA") on the Proposed Pilot Study that would apply temporary pricing restrictions on marketplace transaction fees applicable to trading in certain securities.

For over 70 years, including 31 years in Canada, Fidelity has put investors first by working hard to help them achieve their financial goals. We recognize that the CSA is also

committed to improving outcomes for investors and we are pleased to work collaboratively with the CSA toward our shared commitment.

GENERAL COMMENTS

Fidelity supports the CSA's continuing effort to evaluate the marketplace, and to promote market integrity and bolster investor confidence. We believe that the Canadian equity markets are fundamentally strong and that investors have benefitted from numerous advances in recent years. Technology and a competitive marketplace of multiple trading centers have led to improved cost, liquidity, speed and product innovation.

The Proposed Pilot Study is designed to facilitate analysis of the impacts that transaction-based fees and rebates, and changes to those fees and rebates, may have on order routing behavior, execution quality, and more generally, on market quality. The United States Securities Exchange Commission ("SEC") and the CSA seem to anticipate that the data generated by the Proposed Pilot Study will generate positive evaluation results to potentially reduce or terminate rebate fees. We think the coordination with the SEC on inter-listed stocks and on the duration of the study is important.

While Fidelity commends the CSA for advancing this discussion, we have concerns that the Proposed Pilot Study may have unintended consequences within the Canadian capital markets.

SPECIFIC COMMENTS

Pilot Evaluation

Fidelity generally agrees with the CSA's proposed metrics for measuring market and execution quality in the Proposed Pilot Study – i.e., data measuring effective spread, quoted spread, slippage, displayed liquidity and depth of book. We believe that the CSA's definition of a "medium liquid security" is appropriate; the lower grouping will, in our view, capture a unique subset of Canadian equities with their own performance, broker routing and intermediation profile.

We would, however, encourage the CSA to provide additional guidance on what it considers a "good outcome" would look like in terms of liquidity, volume, ability to transact in the market and trading behaviour. Fidelity believes that clearly defined measurements of market and execution quality at the start of the Proposed Pilot Study will help avoid post hoc justifications and arguments about success and failure. We would also appreciate clarification on how the CSA intends to deal with the potential of current non inter-listed securities found in the sample to list in the United States after the commencement of the Proposed Pilot Study.

Sample Size

Fidelity supports the Proposed Pilot Study's stratified random sampling by market capitalization, share price and liquidity. However, we question whether a statistically relevant sample size may be achieved with fewer stocks. The CSA's Proposed Pilot Study seeks to have a total of 140-180 dually listed stocks, and 280-360 non inter-listed stocks in

the test groups¹. In the United States, liquidity was 16 times greater and the total market capitalization was 20 times greater than Canada in 2018². In addition, trading costs in Canada tend to be more expensive than the U.S. and there are a greater number of marketplaces in the United States compared to that in Canada. For these reasons, our primary concern is that the Proposed Pilot Study may impact liquidity in certain Canadian securities extensively, which could create an unfair advantage to large institutional participants.

We believe that constraints on Canadian marketplaces that offer formal programs to enhance rebates during the Proposed Pilot Study may be appropriate. If the stated concerns are increased segmentation, increased intermediation and conflicts of interest for routing decisions, constraints have to be placed on market-making programs, as they can contribute to these concerns. However, removing all the economic benefits that market makers gain through these programs will, in our view, limit the liquidity that they provide and could potentially lessen the benefit that the obligations of market-making deliver to retail flow. Retail clients are the primary beneficiary of market-making programs as they offer minimum fill sizes and liquidity for odd lots. We think there should be support for incentives that encourage market makers to continue to provide liquidity and reward performance, but that are not volume based.

Access Fees

Fidelity believes that exchange behaviour on access fees must also be closely monitored to ensure efficiency and to discourage manipulative practices. We note that in the current marketplace, some exchanges compete with each other on price in the form of rebates. If these exchanges cannot offer rebates or linked pricing in the test group, the impact could be severe. There are also concerns that not all vendors would adjust routing behavior to reflect differences in fees necessary to make systems compliant on a stock-by-stock basis. This is essential and we believe that all participants should be aware of and be diligent in ensuring vendor compliance with this Proposed Pilot Study.

The CSA asked for feedback on whether to include ETFs and how to package two “like ETFs” in differing buckets. Fidelity agrees that ETFs should be included in the Proposed Pilot Study, as the liquidity of these products may also be impacted by access fees. We believe that “like ETFs” need to stay in the same bucket – e.g., ETFs that track the same group of stocks should be placed in the same test group. If similarly situated ETFs are not grouped together, the analysis may place different price levers on virtually the same product, which is not equitable from a competitive business perspective.

Privacy Concerns

¹ The CSA Proposed: (i) 70-90 inter-listed securities (50-60 highly liquid; and 20-30 medium liquid) with equal number of matches; and (ii) 140-180 non-inter-listed securities (60-80 highly liquid and 80-100 medium liquid) with equal number of matches.

² Source: Bloomberg

The Proposed Pilot Study would require exchanges to prepare a publicly downloadable file, often containing granular, sensitive and aggregated broker-dealer order routing information for all securities included in the Proposed Pilot Study. In preparing these datasets, the exchanges would be required to anonymize information relating to the identity of individual broker-dealers before making the order routing datasets publicly available. In order to track and aggregate the activity of particular broker-dealers across multiple exchanges, each exchange is proposed to use the same anonymized code provided by the CSA, and based off the central registration depository identifier, to classify a specific broker-dealer.

We are concerned that the identity of specific broker-dealers may be reverse engineered based on public data provided for the Proposed Pilot Study – e.g., it is proposed to separately publish held orders and not-held orders in publicly available order routing data. Given the large percentage of held orders that represent retail order flow, we believe that it could be easy to identify the largest retail broker-dealers from publicly available data. For this reason, we suggest that the CSA should eliminate publicly available data on held and not-held orders and to extend the dissemination period for this data to be made publicly available from 30 days to 120 days. Moreover, to help ensure that specific broker-dealers are not identified as associated with a particular data set, we suggest that the CSA should restrict the sharing of the anonymized code for each broker-dealer with only those exchange employees who are directly responsible for publishing the data.

Execution Quality

If the results of the Proposed Pilot Study indicate that market and execution quality measures suffer in a high rebate world and on a high rebate marketplace, then a natural extension should be drawn towards those that focus their routing behavior to seek these rebates. Managing execution quality is a task brokers put various levels of focus on and, as you know, best execution is a principles-based rule in Canada. Unlike the United States, there are no standard measures in Canada that brokers publish. With differing business lines wrapped-up under one broker, deciphering broker routing behavior becomes very hard. These differing business lines may effectively utilize rebate marketplaces while managing any potential conflicts and preserve execution quality. If the combined aim is to examine broker conflicts and execution quality, achieving that goal could be difficult.

CONCLUSION

Fidelity would be pleased to provide further information, participate in any direct outreach efforts the CSA undertakes, or respond to questions the CSA may have about our comments.

Sincerely,

Fidelity (Canada) Asset Management ULC

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Fidae Abbas
Chief Compliance Officer

c.c. Andrew Marchese, President
Sian Burgess, SVP, Fund Oversight, Fidelity Investments Canada ULC