



Royal Bank

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Dear Mr. Nagy:

**Re: Proposed Amendments to CDS Fee Schedule Re ISIN Issuance,  
CDS Eligibility Services and Entitlement & Corporate Action Events Management**

Royal Bank of Canada (RBC) appreciates the opportunity to comment on the two submissions published by CDS Depository and Clearing Services Inc. (CDS) regarding proposed amendments to its fee schedule for ISIN issuance and eligibility services (Issuance Services) and entitlements and corporate action event management services (E&CA Services). Our comment letter encompasses RBC's responses to both CDS submissions.

RBC is Canada's largest bank and one of the largest banks in the world based on market capitalization. We are one of North America's leading diversified financial services companies and provides capital markets, personal and commercial banking, wealth management, investor services and insurance products and services on a global basis. RBC and its subsidiaries have over 80,000 full- and part-time employees who serve more than 16 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 36 other countries. Our purpose is to help our clients thrive, which includes offering a range of cost-effective investment products to meet their investing needs.

RBC recognizes and supports the important role that CDS plays in facilitating sound and efficient capital markets in Canada. We also generally support the pricing principles on which the proposed fees are based. It is worth noting that principle 2 states that: "Fees should take account of the service cost and the operational risk of service delivery", rather than state that the costs and risk must be fully covered by the fees. As well, we note that the principles are based on the impact to CDS. Given CDS's unique role in the Canadian capital markets and its position as the sole provider of many services, the pricing principles also must include consideration of the impact on the users of CDS's services, their business models and their price elasticity of demand for such services.

As one of the largest issuers in Canada, RBC would bear a very large additional cost if the CDS fee changes are adopted as proposed. The impact on RBC's structured notes program alone is estimated to increase the cost of using CDS's Issuance and E&CA services by 324%, which equates to almost two-thirds of a million dollars annually. This is in addition to the hundreds of thousands of dollars in extra costs for the other instruments issued by RBC, for a total of close to a million dollars annually. Structured notes provide investors with a cost-effective and flexible investment that can be customized to meet their needs. Structured notes are clearly popular with investors as their growth has been strong in the past decade. Fee increases of the magnitude proposed by CDS would reduce the economics of note offerings to the detriment of the investing public.

As CDS has not provided information outlining what its fee changes are expected to yield as additional revenue, RBC's rough estimate is that CDS's fee changes would result in several million dollars of extra costs to users. CDS also has not specified the magnitude of the costs it is seeking to cover, the size of the investment required to maintain and innovate its services nor its target return on investment. In the absence of some guidance as to how the levels of the proposed fees were set, we consider the fees to be

excessive based on their estimated impact on RBC's investment products and, we expect, on similar products of other large issuers.

### **Fees for Issuance Services**

CDS is proposing to adopt a new one-time eligibility administration fee of \$475 per request to account for the administrative costs of making securities depository-eligible. RBC estimates that this new fee alone would add almost a quarter of a million dollars in additional annual costs, only a small amount of which would be offset by the reduction in the one-time ISIN fee.

In its Notice and Request for Comment on its proposed fees for its Issuance Services, CDS provides a sample comparison of the cost change for a standard initial public offering by a corporate issuer that indicates a reduction in the total cost from \$875 to \$868. The main reason for the reduction in the total cost is the drop in the BEO certificate fee from \$550 to \$125. However, this comparison is somewhat specious as the BEO certificate fee does not apply to several issuers. The current level of the BEO certificate fee was set as a disincentive. Consequently, a number of issuers, such as RBC, hold their issues as Non-Certificated Inventory (NCI) at no cost. As the BEO certificate fee does not apply for NCI issues, the impact of the eligibility fee changes will be an increase of 129% from \$325 to \$743.

For simplicity, CDS is proposing to adopt a single fee of \$475 to cover the range of tasks to make different non-money market securities depository-eligible. A high volume issuers familiar with the eligibility process will pay the same fee as less experienced issuers who will need more guidance and review of their securities. Although CDS provides a qualitative description of the type of work required to process an eligibility request, no context is given as to why a fee of \$475 per request is an appropriate amount. Given CDS's position as the industry's sole service provider and the large impact the fee will have on issuers, more information should be provided to explain why this level is considered appropriate relative to the expected administrative effort to be expended per request. For example, how long does an average eligibility request take in terms of person-hours and what portion does the labour cost comprise of the costs to be covered by the fee?

RBC agrees that CDS should apply fees to issuers to reflect the cost of providing its services and to allow for future development. However, in the absence of a clearer rationale for the level of the proposed new eligibility fee and given the large impact that it will have on issuers, particularly larger issuers who understand and regularly follow the eligibility process, RBC requests that CDS either substantially reduce the fee or provide a fee structure that more closely aligns with the respective work effort required to administer each eligibility request.

### **Entitlements & Corporate Action (E&CA) Event Management Fees**

The introduction of the new E&CA event management fees would result in RBC incurring almost half a million dollars in additional costs each year just for its structured note program, plus roughly another quarter of a million dollars or more to process the entitlements and corporate actions for its other issued instruments. This is a large new cost for any organization to absorb.

In its Notice and Request for Comment and in other commentary, CDS refers to an approximate 50% revenue shortfall associated with processing E&CA events and a shortfall in achieving overall profit projections due to lower trade volumes than forecast at the time of the Maple deal and loss of the revenue from operating the Canadian Securities Administrators national systems. CDS has been aware of these shortfalls at different stages over the past several years. Without more information about the level of CDS's shortfall and the projected revenues from the new E&CA event management fees and given the high estimated cost of the new fees to issuers, the implication is that CDS is trying to make up for lost revenue.

RBC agrees that CDS should charge fees to users of its services to take account of its costs and provide for future development. However, the manner and level by which new fees are introduced and their impact on users also must be considered. The high cost of the new fees will have a heavy impact on issuers, particularly larger issuers. As CDS has noted in the section on Competition and E&CA Event Management Alternatives in its Notice and Request for Comments, it is possible that issuers may find its new fees to be non-competitive and may look to one of the multiple viable options available to issuers. The demand for CDS's services is not price inelastic. RBC recommends that CDS meet with the issuers that will be most affected by its new fees to consider an alternative fee structure that will be less likely to lead issuers to seek alternative means of administering their issues while achieving much of CDS's objectives.

Thank you for the opportunity to raise our concerns about the proposed new Issuance Services and E&CA Event Management Fees. RBC supports CDS's objectives to manage its costs and invest in the development of more efficient and secure systems and processes. However, the unique position of CDS in the Canadian capital markets and the impacts of its fee proposals on its services users, such as issuers, must also be taken into account so that their ability to serve their clients and support competitive capital markets is not impinged. We would welcome the opportunity to discuss our concerns with you further and how they can be addressed.

Sincerely,



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