February 18, 2020
Delivered Via Email

Wayne S. M. Ralph
Chief Operating Officer
CDS Clearing and Depository Services Inc.
100 Adelaide Street West
Toronto, Ontario
Email: wayne.ralph@tmx.com

Dear Mr. Ralph:

RE: Notice and Request for Comments - Proposed Significant Change to Eliminate CDS Fee Rebates and Proposed Amendments to Eliminate Network Connectivity Fees

We are writing in response to the request for comment in Notice and Request for Comments - Proposed Significant Change to Eliminate CDS Fee Rebates and Proposed Amendments to Eliminate Network Connectivity Fees.

Leede Jones Gable Inc. ("LJG") is an independent, self-clearing firm with offices across Canada. LJG is actively engaged in multiple industry groups including CDS' Strategic Development Review Committee ("SDRC") and Fee Committee as well as the Investment Industry Association of Canada ("IIAC"). The IIAC is also commenting on this notice, and we are supportive of the views shared in that comment letter.

Termination of Rebates

We find the proposed change to eliminate CDS fee rebates to be flawed for numerous reasons, including:

- The decision to replace the present mainframe technology is driven by CDS, not the needs of CDS participants, yet participants are required to fund the entire cost of the project.
- CDS participants already make a significant contribution to the cost of technological enhancements.
- This proposal is based on the premise that CDS is entitled to a certain return regardless of whether projects are managed appropriately.
- This proposal does not address what would happen if this project is delayed or over budget.

The decision to replace the present mainframe technology is driven by CDS, not the needs of CDS participants, yet participants are required to fund the entire cost of the project. The notice does not detail any addition services or functionality that benefits participants or that adds value to our business. While the present mainframe technology has been extremely reliable, CDS will benefit from modernizing their technology through lower operation costs. Elimination of the rebate will result in additional operating income for CDS of $8 million per year or $80 - $120 million over 10-15 years or essentially the entire cost of the project. This calculation excludes any growth in the business that would increase future rebates. As such, we believe participants would be funding the entire project cost through the elimination of the rebate why CDS benefits from cost reductions, significantly adding to the profitability of CDS at the participant's expense.

CDS participants already make a significant contribution to cost of technological enhancements. When CDS was purchased by Maple in 2012, the fee structure contemplated a budget allocation of $3 million annually towards technological improvements to CDS computer systems. There have been very few technological improvements implemented and the bulk of this funding should remain available. Since 2012, $24 million of funding has been accumulated. Over the life of the new proposed technology, and an additional $30-45 million would accrue for a total of $54 -69 million. These funds which represents approximately 50% of the proposed cost, should be considered the participants contribution to this project. As CDS will benefit from reduced operating costs (as mentioned in the notice), we believe CDS is responsible for financing the remaining costs from future operating efficiencies. We believe the elimination of rebates is unnecessary and will flow entirely to CDS's bottom line.

This proposal is based on the premise that CDS is entitled to a certain return regardless of whether projects are managed appropriately. The rebate elimination proposal follows the unsuccessful attempt to replace the mainframe technology under the Mercury and Atlas projects. These projects had a budget of $60 million and did not require participant funding. We do not agree with the statement made by CDS in the proposal that "We have determined that eliminating CDS's fee rebates is a fair and appropriate change to make in order to fund the PTM project and to fund future technology projects, while meeting TMX's minimum expected internal rate of return ("IRR") for the CDS business." CDS has not adequately explained the significant cost increases over the Atlas and Mercury projects or the net benefit to the participant community. Participants should not be required to pay for the aborted Mercury and Atlas project costs or ensure CDS meets the TMX's required rate of return.

This proposal does not address what would happen if this project is delayed or over budget. Eliminating the rebates before the new system is in production removes the incentive to complete this project on time (or at all). Large projects are complex, and delays can arise; can we have 100% confidence that this project will be delivered on time and on budget? In our view, it is unreasonable to expect participants to pay for technology that has not been delivered for their use. Any cost imposed on the participants should not commence until after this project is completed and in production.

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Conclusion: We are not satisfied that CDS has demonstrated a need for this project with a full cost/benefit analysis. However, if the project proceeds, the removal of the CDS rebate is inappropriate. Participants already contribute $3 million per year towards technological improvements, and this should be adequate to fund this project, along with the other operating efficiencies gained by CDS.

Further, we disagree that TMX is entitled to a minimum return on their investment in CDS. TMX Group is a for profit business and should continue to live with the shared benefit arrangement that results in the rebate program that was agreed to during the Maple transaction.

Finally, should participant benefits warrant a contribution towards funding the mainframe's replacement, such funding should not be imposed upon participants until the new technology is available and in production. Any funding mechanism should be temporary and end once the participants have funded their share of the costs. CDS must be accountable for managing the projects they undertake without shifting cost to the participants.

Connectivity Fee Cancellation

The proposal to eliminate network connectivity fees is inadequately explained and incomplete. The proposal contemplates shifting the responsibility for connectivity directly to participants from CDS. Participants will directly incur expenses for network connections, however, this cost has not been determined. In our view, participants will not incur significant savings.

We appreciate the opportunity to comment on these reforms. If you have any questions or further inquiry, please feel free to contact us.

Sincerely,
Leede Jones Gable Inc.

Jim Dale
Chief Executive Officer
Leede Jones Gable Inc.

CC: Me Philippe Lebel, Secrétaire général, et directeur général des affaires juridiques, Autorité des marchés financiers
Manager, Market Regulation Market Regulation Branch Ontario Securities Commission
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