



Securities Transfer Association of Canada

William J. Speirs
President

December 12, 2014

Sent via email: snagy@cds.ca
consultation-en-cours@lautorite.gc.ca
marketregulation@osc.gov.on.ca
dmackay@bcsc.bc.ca
mwang@bcsc.bc.ca

Stephen Nagy
Managing Director, SIES
CDS Clearing and Depository Services Inc.
85 Richmond Street West
Toronto, Ontario M5H 2C9

M^e Anne-Marie Beaudoin
Secrétaire générale
Autorité des marchés financiers
800, square Victoria, 22^e étage
C.P. 246 tour de la Bourse
Montréal (Québec) H4Z 1G3

Manager, Market Regulation
Market Regulation Branch
Ontario Securities Commission
22nd Floor, Box 55
20 Queen Street West
Toronto, Ontario M5H 3S8

Doug MacKay
Manager, Market and SRO Oversight
British Columbia Securities Commission
701 West Georgia Street
P.O. Box 10142, Pacific Centre
Vancouver, B.C. V7Y 1L2

Mark Wang
Manager, Legal Services
British Columbia Securities Commission
701 West Georgia Street
P.O. Box 10142, Pacific Centre
Vancouver, B.C. V7Y 1L2

Dear Sirs and Mesdames:

Re: Proposed Amendments to CDS Fee Schedule for Issuer Services Program

The Securities Transfer Association of Canada ("STAC") is pleased to be able to offer our comments on the CDS Clearing and Depository Services Inc. ("CDS") proposed amendments to the CDS Fee Schedule for Issuer Services Program. STAC is a non-profit association of Canadian transfer agents that among others has the following purposes:

- To promote professional conduct and uniform procedures among its members and others;
- To study, develop, implement and encourage new and improved requirements and practices within the securities industry;
- To develop solutions to complex industry-wide problems;
- To provide a forum and to act as a representative and spokesperson for the positions and opinions of its members, and, where appropriate, its clients and the holders of securities.

STAC members' clients consist primarily of public and private companies for which they act as transfer agent and registrar. In the vast majority of these cases, these clients trade their securities issues on listed stock exchanges or on over the counter bulletin boards. Further, as transfer agent and registrar, STAC members' primary function is to keep records of the shareholders of its various clients.

Consultation and Alternatives Considered

STAC members were able to meet with representatives of CDS on December 10, 2014 and received a presentation from CDS regarding the anticipated mechanics of the fee collection process. STAC has committed to continued discussions with CDS on the proposed Issuer Services Program in the coming weeks.

The key point we would like to stress to provide context for the comments that follow is the feedback from STAC member firms to CDS during the consultation process that there was no interest in taking on the administrative burden of levying and collecting fees on behalf of CDS through our client invoices. This point was not acknowledged in the reported comments under the Consultation section of the proposal. The administrative burden for transfer agents would include system development to facilitate the receipt and management of issuer fees levied by CDS as well as additional and perhaps dedicated, staff to deal with invoicing and reconciliation of same. STAC members also anticipate that our clients will call upon their respective account managers to field inquiries related to the CDS fees levied which is a resource drain unrelated to the services provided by the transfer agents; costs that would not be recoverable. As a result, the cost benefit of this proposal is misaligned in that transfer agents would incur ongoing costs for the benefit of CDS' increased revenue.

Furthermore, the reference in the proposal under the Alternatives Considered heading that reads "...issuers who have appointed Transfer Agents have done so for the express purpose of managing their relationships with securities intermediaries and shareholders..." is an inaccurate statement. The primary purpose of a transfer agent is to serve as record keeper of the issuer's registered holders and maintain a balanced issued and outstanding register of the company's securities. Additional services may be provided by a transfer agent; however these are based on agreements between the transfer agent and their issuer client. To state the express purpose of the transfer agent is to manage issuer relationships is misleading. Issuers do establish a relationship with CDS at the time their respective issues become CDS eligible. It stands to reason that any fees that CDS chooses to levy for issuer activities after that relationship commences, should be made directly by CDS to the issuer itself and not indirectly through the issuer's transfer agent.

Competition and Contractual Framework

Based on general feedback from clients of various STAC member firms, there is concern that these activity fees are being forced upon issuers with little recourse short of ending their CDS eligibility status. This eligibility status is established for the ease of the securities intermediaries rather than a direct benefit to the issuer themselves. Given the market dominance of CDS, withdrawing eligibility is not practical without adversely impacting shareholders and their securities intermediaries. We also note that CDS services in immobilising securities ownership and centralising the administration of securities entitlements for financial intermediaries are provided primarily for the benefit of the intermediaries and their investor clients and therefore query the appropriateness of levying the entitlement and corporate actions fees on issuers in this manner.

With regard to the amendment in the TA Agreement with non-Limited Participant transfer agents that CDS intends to make, STAC cannot comment at this time as there has not yet been an opportunity to see the proposed changes. As a result, it is not possible for those non-Limited Participant transfer agents impacted by this agreement amendment to fully assess the CDS proposed fees without also reviewing the proposed contractual changes that will give effect to the fees. In addition, we understand that CDS plans no changes to the rules for Limited Participant Transfer Agents to support this service; we had assumed that there would be changes and would suggest that a change in processes like this warrants a review of the rules to assess the impact of the change and address the liability and administration of this process. For example, we understand that CDS does not propose for transfer agents to bear the credit risk of the fees if issuers do not respond to transfer agent invoices. However without reviewing the contractual changes or potential rule changes, it is not possible to affirm these will be effective protection for transfer agents and what the consequences of an issuer non-payment may be for both the issuer and the transfer agent. The proposed contract and potential rules should have been published concurrently with the proposed Issuer Services Program fees to facilitate joint review and informed feedback by transfer agents on both proposals simultaneously.

Nature, Purpose and Impact

It is STAC's view that the financial impact of the proposed fees will be noticeable for certain issuers, particularly those exchange traded funds that make monthly distributions through CDS as well as junior market issuers. Although CDS has asserted that junior market issuers are largely unaffected by corporate action event management, it is the experience of our member firms that junior issuers are the most likely to have activities that fall in the scope of corporate action events. Given the resource limitations that these issuers are typically managing, we anticipate that this new fee structure could be challenging to manage depending upon the frequency of restructuring that may occur over time.

We appreciate that CDS, like any organization, needs to invest in infrastructure to meet the expectations of the market; however it has been our understanding that transactional activities performed by CDS have largely been offset by levying CDS participant fees. It is understood that CDS' assertion is that only in cases where CDS participant activity is triggered, are participant fees levied to reduce the cost gap associated with CDS resources used to set up an event. Specifically, CDS stated it is not compensated by its participants when there is no participation or distribution of cash or securities. While we question the appropriateness of charging any fee to issuers for services rendered for the benefit of CDS participants, we specifically query why CDS is proposing blanket fees versus directing fees specifically

toward these events where there is no participation or distribution. In cases where there is CDS participant activity, will both CDS participants and issuers be paying for the same event from their respective positions in the waterfall of the transaction?

CDS states that they processed 183,000 events representing \$3.35T, at a cost, per dollar distributed, of only a few 1/100ths of a basis point. How do these earnings impact the infrastructure capital that is being sought by way of implementing the new issuer fees? Is it anticipated that the new issuer fees will be a supplemental revenue source to raise capital for infrastructure reinvestment? If issuers are expected to pay for these developments, then it is STAC's opinion that issuers, and their appointed paying agents, should have input into the development to ensure that a benefit is received by them.

Issuer Services – Fee Types

Entitlement and Corporate Action Event Management Fees

As noted above, we query the appropriateness of levying fees for entitlements and corporate action event management on issuers and in particular we do not agree with CDS's proposal to require the issuers' transfer agents to invoice collect these fees from their clients and remit the payments to CDS. This is an inappropriate intervention in the client relationship between issuers and transfer agents, and will impose appreciable costs on transfer agents to administer. We also have some queries on the application of the proposed fees which are outlined below.

Using the example of an Exchange Traded Fund that is making a monthly distribution through CDS that also has a DRIP component and monthly redemption option, based on the fee line items, the charges per transaction would be as follows:

Exchange Traded Fund Event	\$250
Dividend Event (for cash dividend)	\$100
Dividend Event (for DRIP)	\$100
Corporate Action event with option	\$250

Please clarify if this is the intended application of the proposed fees. If so, based on the example provided, that Fund could expect to pay \$700 per month or \$8,400 per year that would be new fees.

In those cases where an issuer funds the entitlement amounts to CDS directly rather than through a LP TA, please confirm how that issuer will be impacted by the proposed fees.

ISIN Issuance

The current proposal would place transfer agents as a fee intermediary between CDS and issuers for the CDS based transactions which, in STAC's view is entirely inappropriate and would not be efficient. Fees for ISIN issuance are generally levied by the ISIN Numbering Agency either directly on the issuer or on the party that is requesting the ISIN on behalf of the issuer. The ISIN issuance function is distinct from CDS's core role as central securities depository for the Canadian market, and we are concerned that a transfer agent's interaction with CDS in relation to its core role should not become conflated with CDS's ancillary activities.

We also want to be clear that a blurring of lines could occur as to what becomes the expectation of transfer agents' core function, by extension. For example, when an issuer is applying for an ISIN and fees must accompany the application, clear distinctions of responsibilities must be observed so as to not allow a creeping scope of expectations that create a perception that transfer agents become responsible for completing the applications by default rather than as an additional service that a transfer agent may agree to provide to its issuer client.

Security Eligibility Administration Fee, Certificate Fee and Late Request Fees

The security eligibility administration fee is presented as necessary to offset the manual review and transposition of offering documents for key details. This fee seems to be at least in part, the result of lack of automation in the CDS eligibility system. Would issuers be able to reasonably expect that this fee will be reduced in the future once CDS implements system automation, reducing the manual effort required of CDS? As with the ISIN eligibility fee, it is inappropriate to insert transfer agents by default into a role in the CDS security eligibility process by requiring fees to be collected by transfer agents. Such fees should be levied at the point of the eligibility application, to the applying party.

Clarity is requested regarding the certificate fees that will be levied. The proposal as written, suggests that issuers will be paying for certificates that are in CDS's vault that are required to be held in physical form, likely due to the nature of the instrument or the corporate statute that governs the issuer's securities. Is that the intended application?

The tiered late fee schedule is another topic for which clarification is sought, particularly as to how and when payment requirements will be communicated. If an issuer becomes subject to one of the late fees as described in the proposal, what is the expectation in terms of notifying the issuer of the fee being levied? A late fee of \$10,000 is a significant amount, particularly for smaller issuers that may not have the same level of cash resources available to them as mid to large issuers. Will CDS ensure that the issuer is aware of the fee prior to proceeding? In addition, does CDS take the position that the transaction will be completed within the requested time frame even if the late fee payment has not been made up front at the time of the notice request?

International Comparisons

CDS references several international markets where issuers are charged fees for various events by either the stock exchange or the Central Securities Depository. We have not had the opportunity to undertake a full comparison of fees across the cited markets and are therefore not commenting on the specifics. It is, however, pertinent to note that CDS does not include for comparison those markets where no equivalent fees for entitlements and corporate actions are charged to issuers. We also note, as mentioned above, that in each of the markets cited, the stock exchange or Central Securities Depository levying the fees have a direct contractual relationship with the issuer which addresses the imposition of the fees and in the majority of cases levies such fees directly to the issuer not through the issuer's agent.

In conclusion, STAC wishes to confirm the need to have a robust clearing system is understood and that new, or increased, fees are a viable method to establish the infrastructure capital. That stated, there are significant concerns about the manner in which this model has been presented, specifically that

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transfer agents have been identified as the party that will take on the administrative burden to levy and collect fees from issuers on behalf of CDS. STAC members were clear in their communications to CDS that this method would add undue costs to the transfer agents to manage and added no value for our clients by invoicing fees driven by CDS that are not directly related to our services. The approach comes across as contrary to the spirit of the various recognition orders that were intended to prevent market dominance as a tool to cause practice to shift due to the absence of viable alternatives. We respectfully request that the CDS proposal be further reviewed and clarified as to intended application so as to provide issuers with a clear understanding of costs they will incur based on the routine transactions involving CDS. We also request that proposed changes to the TA Agreements with CDS be published for review and discussion with the goal of agreeing upon a structure that accomplishes the best balance for CDS and issuers as it pertains to the application and collection of CDS issuer fees, and, further, that STAC members be provided additional time to consider the financial impact and appropriate compensation to collecting and remitting payments to CDS. Issuers cannot be expected to bear both the new fees, and the costs of their own agents applying the fees to them. It is a duplicative burden on issuers, but equally it cannot be expected that we, as agents, would be required to bear the costs directly.

Yours truly,



William J. Speirs
President
Phone: 416-682-3885
Fax: 514-985-8837
Email: bspeirs@canstockta.com