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Delivered via Email: kevin.sampson@tmx.com
Kevin Sampson, President
CDS Clearing and Depository Services Inc.

Dear Sirs and Mesdames:

RE: Proposed Significant Changes to Discontinue the Fee Rebate Model and Reduce Certain Core Clearing and Settlement Fees & Proposed Amendments to Eliminate Network Connectivity Fees and to Eliminate Report File Transmission Fees

The Securities and Investment Management Association (SIMA) | Association des marchés de valeurs et des investissements ("SIMA") appreciates the opportunity to comment on [Proposed Significant Changes to Discontinue the Fee Rebate Model and Reduce Certain Core Clearing and Settlement Fees & Proposed Amendments to Eliminate Network Connectivity Fees and to Eliminate Report File Transmission Fees](#) (the **Proposed Changes**).

SIMA empowers Canada's investment industry. The association, formerly the Investment Funds Institute of Canada (IFIC), is now the leading voice for the securities and investment management industry. The industry oversees approximately \$4 trillion in assets for over 20 million investors and participates in the Canadian capital markets. Our members – including investment fund managers, investment and mutual fund dealers, capital markets participants, and professional service providers – are committed to creating a resilient, innovative investment sector that fuels long-term economic growth and creates opportunities for all Canadians.

We operate within a governance framework in which we gather input from our member working groups. The analyses and recommendations of these working groups are submitted to the SIMA board or board-level committees for direction and approval. This process ensures submissions that reflect the input and direction of a broad range of SIMA members.

Summary:

While there is broad support for the modernization and resilience of Canada's clearing and settlement infrastructure, this proposal continues to raise concerns previously raised in response to the 2019 and 2021 CDS Clearing and Depository Services Inc. ("CDS Clearing") proposals.

We appreciate the objectives underlying the proposal, however, in its current form, it lacks sufficient justification and may place a disproportionate burden on market participants. Additionally, it does not appear to fully reflect the public interest commitments made at the time of the Maple Group Acquisition Corporation's ("Maple Group"), now known as TMX Group Limited ("TMX Group"), acquisition of The Canadian Depository for Securities Limited. We urge CDS Clearing and its regulators to reconsider this proposal and collaborate with industry participants to develop a transparent, equitable, and well-governed fee structure that supports both modernization and market integrity.

General Comments

We appreciate the opportunity to provide comments on the proposed changes to CDS Clearing's fee structure, specifically the proposed elimination of the 50/50 and additional rebate mechanisms, and the corresponding adjustments to certain core clearing and settlement and non-core fees.

We acknowledge and support the underlying goal of ensuring a resilient, modern, and efficient clearing and settlement infrastructure for Canada's capital markets. We also recognize the importance of continued investment in technology and operational soundness. However, CDS is the exclusive provider in this space. With a captive audience and no alternative options currently available, the proposal as presented raises significant concerns regarding financial accountability, participant value, governance, and transparency. These concerns are summarized below and form the basis for our objection to the proposed rebate elimination at this time.

Rebates as a Structural Safeguard

In 2012, Maple Group, now known as TMX Group, acquired The Canadian Depository for Securities Limited, the holding company for three operating subsidiaries: CDS Clearing, CDS Securities Management Solutions Inc., and CDS Innovations Inc. CDS Clearing is Canada's national securities depository, clearing and settlement hub supporting Canada's equity, fixed income and money markets.

In reviewing, and subsequently approving the 2012 Maple Group transaction, CDS Clearing's provincial regulators issued Recognition Orders which imposed, among other requirements, specific fee and rebate models on CDS Clearing. The rebate model was introduced as a public interest safeguard in response to industry concerns about the risks of vertical integration and the potential for unchecked fee increases. The rebate was designed to ensure that CDS Clearing participants shared in efficiency gains and to mitigate the risk of increased costs arising from the integration of core clearing and exchange functions under a for-profit model.

The proposal to now eliminate this safeguard, without offering a comprehensive governance model including participant oversight, raises serious questions about how future fee changes will be managed and monitored in the public interest. The TMX Group was fully aware during the acquisition negotiations that system enhancements and capital investments would be necessary. As a major technology provider within the industry, the TMX Group would have been aware of operational risks related to payment and settlement systems as detailed in IOSCO's 2011/2012 consultative report on Principles of financial market infrastructures so it appears unreasonable for the TMX Group to now assert that the need to replace aging technology assets was unforeseen. If TMX Group believed at the time that the economic model under discussion in 2012 could not support the required capital expenditures, it was incumbent upon them to address this within the Maple Group transaction agreement and Recognition Orders. Revisiting these obligations at this stage appears not only untimely, but also inconsistent with the terms of

a binding legal and regulatory agreements. Once agreed upon, such commitments cannot be unilaterally revisited without undermining the integrity of contractual obligations and regulatory frameworks.

We believe the rationale for the rebate remains valid, and any changes to its structure should be subject to robust oversight and broad consensus within the industry.

Cost Allocation and Financial Responsibility

We do not agree with CDS Clearing's characterization that the proposed changes are necessary due to rising costs, nor do we accept the assertion that participants should bear these costs through the elimination of the rebate. CDS Clearing, as a for-profit, vertically integrated subsidiary of the TMX Group, has earned strong profits in recent years and has paid substantial dividends to its parent and shareholder TMX Group¹. We question whether eliminating the rebate is an equitable solution, or whether retained earnings and future cost efficiencies should instead fund necessary investments.

It is well understood by participants that CDS Clearing service pricing already includes a built-in budget for infrastructure enhancement. The responsibility for funding infrastructure modernization and unexpected capital expenditures should not be shifted to participants, especially when participants already contribute significantly through service fees that include built-in allocations for system enhancements. Participants should not be asked to fund the same modernization costs twice—first through service fees, and again through the forfeiture of rebates.

CDS Clearing's proposal that the elimination of select non-core fees, such as network connectivity fees, will benefit participants is misleading. These costs are not disappearing but are instead being shifted directly to participants, who will now be responsible for managing and funding their own connectivity. Furthermore, some participants have reported that contrary to CDS Clearing's assertion, not all port fees, such as those related to site-to-site connections, have been eliminated. We request a more comprehensive and equitable review of all CDS Clearing fees before any structural changes are implemented.

CDS Clearing's assertion that its fees remain among the lowest globally should be interpreted with caution. Comparisons with other vertically integrated market infrastructures do not reflect the unique structure of the Canadian market or the specific safeguards introduced during the Maple Group transaction.

Transparency and Value Proposition

While we support the objectives of the Post-Trade Modernization (PTM) initiative and modernization of CDS Clearing's technology infrastructure, the proposal fails to adequately articulate the specific benefits to participants.

We are concerned by the limited transparency that has characterized this proposal. Although CDS Clearing has indicated that it shared impact analyses with participants, our experience suggests otherwise. Several participants did not receive detailed financial impact information until it was specifically requested, and in some instances, financial impact data provided by CDS Clearing could not be reconciled and/or upon further analysis appeared inconsistent. With the implementation of PTM in April 2025, members remain unclear on how this implementation improved their operations, service offerings, or reduced costs. Some members have noted that contrary to CDS Clearing's claims, certain port fees such as those related to site-to-site connections and like-for-like conversions have not been eliminated. We also note that there were significant cost overruns on PTM due to project delays. Participants also incurred material internal costs to support this modernization, including integration, testing, and infrastructure upgrades. These costs must be considered in evaluating the net impact of the proposal. Furthermore, CDS Clearing has not provided a clear breakdown of the total PTM cost, the expected

¹ Annual Reports (2019-2024), Retrieved from:

<https://www.cds.ca/resource/en/314>, <https://www.cds.ca/resource/en/413>,
<https://www.cds.ca/resource/en/440>, <https://www.cds.ca/resource/en/470/>
<https://www.cds.ca/resource/en/498>, <https://www.cds.ca/resource/en/567/>

internal rate of return (IRR), or how future operational savings from the platform are being quantified and incorporated into this proposal. Without this information, it is not possible to assess whether the fee changes and rebate elimination are justified.

Recommendation

Given the significant changes proposed, our recommendation is to maintain the existing rebate structure until a comprehensive framework is developed in collaboration with all CDS Clearing participants and regulators.

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Conclusion

SIMA is pleased to have the opportunity to comment on the Proposed Amendments. We fully support CDS Clearing's role in maintaining a stable and competitive clearing and settlement infrastructure for Canada's capital markets. We also recognize the importance of continued investment in modern technology. However, we strongly believe that these objectives must be pursued in a way that is transparent, accountable, and aligned with the long-term interests of Canadian capital markets participants. The proposal, as currently drafted, places a disproportionate burden on participants, lacks sufficient justification and transparency, and undermines the public interest safeguards that were put in place at the time of CDS's integration with TMX Group. We urge CDS Clearing and its regulators to take these concerns seriously and engage meaningfully with industry stakeholders to develop a more balanced and transparent solution, that is aligned with the spirit of the original Maple Group transaction and is a sustainable, transparent and an equitable fee model that will serve the industry well into the future.

Please feel free to contact me by email at amitchell@sima-amvi.ca. I would be pleased to provide further information or answer questions you may have.

Yours sincerely,

THE SECURITIES AND INVESTMENT MANAGEMENT ASSOCIATION

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