

## CAC Member Report to Local Board February 27, 2019

The CAC met in-person in Toronto on February 22<sup>nd</sup>, 2019.

Council members were highly engaged and I was quite pleased with the quality of the discussions.

The only new comment letter this month was the Trading Fee Rebate Pilot Study. The study seeks to better understand how liquidity incentives or rebates influence trading behavior on an equity marketplace. Several academic studies and other regulators (IOSCO, SEC) have highlighted concerns with the practice of paying trading fee rebates, as rebates may exacerbate conflicts of interests between the broker and the investor.

**Since the January report, the CAC provided comments on the following consultation (all letters can be seen on the CAC website, [www.cfaadvocacy.ca](http://www.cfaadvocacy.ca))**

- CSA Staff Notice and Request for Comment 23-323 Trading Fee Rebate Pilot Study (filed February 12, 2019)

### About the notice

The CSA is studying the impact of transaction fees and rebates on order routing behaviour, execution quality and market quality by applying temporary restrictions on marketplace transaction fees applicable to trading in liquid equity securities. Where possible, the study will occur in conjunction with the SEC's study for interlisted securities, and 3-6 months prior to the SEC study for non-interlisted securities. For example, they will study the impact of the prohibition on the "maker-taker" model where the participant that provides liquidity is paid a rebate and the other is charged a fee, as well as on the "inverted maker-taker" model. Potential issues that have been identified include conflicts of interest for dealers, segmentation of order flow (retail vs. institutional) and increased intermediation of trades where the liquidity is such that intermediation may not be needed.

### Overview of the Council's comments

We expressed support of the collaborative, data driven approach proposed by the CSA. In general, we suggested observing how the overall degree of intermediation, particularly across liquid securities, impacts investors. We stressed the importance of understanding the impact of rebates on execution quality measures, such as implementation shortfall, time-to-fill and other delay opportunity cost of unfilled trades and market impact metrics, should also be considered with equal emphasis. More specifically, from an institutional investors' perspective, often the costliest order is the order that is delayed, or never completed at all. We encouraged regulators to examine passive order placement and to measure the delay cost of marketable, passive orders that are canceled or subsequently repriced. The council welcomed the examination of longer horizons for inclusion in the event that such inclusion yields meaningful insight or observations of specific behaviours, especially with respect to those securities that trade less frequently, such as those deemed medium-liquid in the study design. Lastly, while expressing general

support, we queried if a broader best execution review may be appropriate following this study and with its results available for examination of broker behaviours.

**The CAC is actively working on a response to the following consultations:**

- OSC Staff Notice 11-784 Burden Reduction (due March 1, 2019)

*About the notice*

The OSC is looking for ways to reduce unnecessary regulatory burden, with a focus on (1) Operational and procedural changes. In particular, identifying changes to make day-to-day interactions with the OSC easier, less costly and provide certainty regarding regulatory requirements and outcomes. (2) Rule changes with a focus on identifying rules that are inconsistent with the rules of other jurisdictions and specific requirements that no longer serve a valid purpose. (3) Enhancing and improving investor experience with the disclosure provided to them, for example, by promoting plain language disclosure.

**At the in-person meeting in Toronto, the CAC met with representatives of the following organizations:**

- IBM: Stewart Cawthray, Associate Partner, North America Security Services
- Ontario Securities Commissions: Chantal Mainville, Senior Legal Counsel, Investment Funds and Structured Products and Raymond Chan, CFA, Acting Director, Investment Funds and Structured Products
- FAIR Canada: Frank Allen, Executive Director
- Hanover Private Client Corporation: Tom Trainor, CFA, Managing Director
- Ontario Securities Commissions: Debra Foubert, Director, Compliance and Registrant Regulation, Winnie Sanjoto, Manager, Corporate Finance Branch and David Surat, Senior Legal Counsel, Corporate Finance Branch.

**General Affairs:**

The CAC is still looking to add a few members to its membership base. If you are a dedicated volunteer with strong communication skills and interested in helping shape the future of our capital markets we would like to hear from you! Feel free to contact us for more information at [cac@cfacanada.org](mailto:cac@cfacanada.org).

**Reminder:**

All letters can be seen on the CAC website, [www.cfaadvocacy.ca](http://www.cfaadvocacy.ca)

Be sure to [Follow Us on LinkedIn](#) to stay up to date on our activities.

Rob Gouley, CFA  
Chair, Canadian Advocacy Council