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Re: Proposed Fee Model for TSX and TSXV Listed Securities Trading on the Canadian Securities Exchange ("Proposal")

Dear Sirs/Mesdames:

BlackRock Asset Management Canada Limited is an indirect, wholly-owned subsidiary of BlackRock, Inc. ("**BlackRock**" or "**we**") and is registered as a portfolio manager, investment fund manager and exempt market dealer in all the jurisdictions of Canada, a commodity trading manager in Ontario, and as an adviser under *The Commodity Futures Act* (Manitoba).

BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers, and other financial institutions, as well as individuals around the world. BlackRock is the investment adviser to the iShares family of exchange-traded funds ("**ETFs**").

We appreciate the opportunity to provide our comments regarding the amendment to introduce a variable trading fee model on the Canadian Securities Exchange ("**CSE**"). The CSE proposes to implement a dynamic fee schedule that applies maker-taker or taker-maker pricing depending on whether the incoming active order is eligible to participate in their Guaranteed Minimum Fill ("**GMF**") facility.[1] BlackRock supports developments that promote innovation and competition without introducing inordinate complexity. We believe, however, that the Proposal will have a deleterious effect on the market and should be disapproved. The variable fee model increases market structure complexity, unreasonably discriminates against passive participants, and fosters information leakage which will elevate trading costs. Furthermore, the impact of this Proposal will be exacerbated by the inevitable proliferation of variable pricing to other exchanges. Exchanges compete vigorously for market share and readily appropriate each other's innovations; approval of this Proposal would set a precedent that opens the door to widespread adoption of variable trading fee structures across all marketplaces.

Unlikely Outcome

CSE expects that the proposed changes will have a positive impact on liquidity provision and price discovery.[2] Yet, no evidence was provided to support the premise that the Proposal would protect passive liquidity providers or increase displayed liquidity. The amendments are designed to alter fees to incentivize the submission of more GMF eligible orders to the exchange, not to systematically segregate this activity. As such, liquidity providers who rest orders on the CSE will still be susceptible to trading against non-GMF eligible flow since these orders are being matched within a central orderbook, not a separate execution facility. Consequently, market makers should continue to be averse to sending their non-marketable orders to the CSE because of the potential risk of executing against the explicit activity that they seek to avoid. Additionally, the variable trading fee model reduces costs for dealers sending marketable orders but does not create any incentives for liquidity providers to take more risk or increase display sizes. As a result, we believe that the Proposal will not achieve its intended effects.

Increased Complexity

Although the Proposal purports to be a straightforward and inconsequential fee update, it will profoundly increase complexity. Investors would need to evaluate the execution quality of fills on the CSE and determine how to manage the potential information leakage stemming from a variable fee model. Market participants would also need to assess how the variance in trading fees will affect the overall economics of their transactions. To the extent that these considerations ultimately impact dealer routing decisions, the approval of CSE's fee schedule would effectively be equivalent to introducing a new order type, exchange mechanic or segregated orderbook. Thus, the CSE proposal compounds market complexity while providing dubious benefit to liquidity providers and market quality.

Fair Access

A variable trading fee schedule unreasonably discriminates against participants who submit passive resting orders. The Proposal establishes unequal pricing for identical orders based on the characteristics of the counterparty for each transaction. This creates undue economic uncertainty for liquidity providers as their trading fees can drastically shift from

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[1] In a maker-taker pricing model, the active liquidity removing order is assessed a fee while the passive liquidity providing order is given a rebate. Conversely, in a taker-maker pricing model, the active liquidity removing order is given a rebate while the passive liquidity providing order is assessed a fee.

[2] The Proposal, found at https://www.osc.ca/sites/default/files/2021-12/cse_20211209_proposed-fee-comment.pdf, (2021), 44 OSCB 10105. The 2016 Proposal was intended to achieve similar objectives, those being increased liquidity provision size, improved price discovery and lower execution costs.

an expected rebate of $0.0014 to being assessed a fee of $0.0018 – a 228% change. Moreover, a variable fee model unfairly disconnects fees from the actions of the market participant that is placing the order. Trading fees would be entirely out of a liquidity provider's control instead of being endogenously determined by the chosen order type or modifiers. We believe that this is inappropriate and imposes an unnecessary burden on market participants.

Information Leakage

The Proposal would establish a fee model that engenders information leakage for institutional investors. Liquidity providers would be able to reverse engineer their trading fees at the end of the day to identify whether the opposite side of each transaction was a GMF eligible order or not. This would give market makers an unfair informational advantage regarding institutional trading activity. CSE acknowledges that this fee reconciliation is achievable but dismisses any industry concerns using specious arguments regarding the scope of the problem and the information content of the data.[3]

CSE asserts that GMF eligibility does not definitively indicate the type of participant. However, GMF eligibility criteria clearly target institutional trading activity. Repeat orders from the same client, Direct Electronic Access orders, and orders from active and continuous traders are not eligible to participate in the GMF facility. For all intents and purposes, non-GMF eligible orders are equivalent to orders from institutional investors.

The Proposal correctly notes that a GMF eligible tag on orders conveys no information as to the specific identity of the participant or their strategy. But market makers would still be able to ascertain the aggregate sentiment across all institutional investors. Any such signal would be exceedingly informative and may be a meaningful predictor of future security price movements given the sizeable nature of orders from this market segment.

Although real-time mechanisms are not being used to provide fee data to liquidity providers, this information is far from unusable. Typically, institutional orders are large, directional, and likely to persist over multiple days. Consequently, end-of-day information is still actionable since it is highly probable that institutional investors will be active in the same securities in the same direction on subsequent trading days.

Any analysis of non-GMF order flow can only be conducted on a subset of market transactions because only a market maker's own executions would be accessible to it. However, an incomplete dataset can still be used to conclusively infer overall market sentiment due to the degree of concentration amongst liquidity providers, where a handful of participants dominate the market. Furthermore, in less liquid securities the breadth and diversity of market participants is lower, which should also increase the significance of any analytical results.

Accordingly, a variable fee model will foster information leakage that results in increased trading costs for institutional investors.

Conclusion

[3] The Proposal, (2021), 44 OSCB 10110. A Dealer would be able to determine whether, based on only their subset of passive orders, the percentage of active flow they traded against which was GMF eligible or non-GMF eligible. A Dealer could potentially reconcile the fee for each trade with the public tape to determine the Dealer on the opposite side of the trade and know whether the order was marked as GMF eligible.

While we are generally supportive of marketplace innovation, we believe that this Proposal should not be approved because it will impose undue complexity and costs on market participants while failing to achieve its intended benefits. BlackRock respectfully thanks the Ontario Securities Commission and the British Columbia Securities Commission for the opportunity to express our views and opposition to the CSE proposal. We welcome any additional questions or further discussion.

Sincerely,

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Margaret Gunawan
Managing Director, Head of Canada Legal and Compliance