

TAKING ACTION TO OPTIMIZE MAKER-TAKER FEES

MAY 2015



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CANADA'S MARKET. FOR ALL.



Reshaping Canada's Equities Trading Landscape: Taking Action to Optimize Maker-Taker Fees

TSX Equities has a long-standing responsibility to enable vibrant and enduring Canadian capital markets. In keeping with this responsibility and consistent with our plans to reshape the equities trading landscape, we are announcing another bold step in this journey: taking decisive action to optimize maker-taker fees for today's trading environment.

The maker-taker fee model has been prevalent in Canada for over a decade, but at its current levels we recognize it may no longer be advantageous for the market. We are therefore planning to implement an adjustment of maker-taker fees through a program of phased rate reductions, with the intention of ultimately delivering benefits and savings to market participants without destabilizing trading activity or market quality.

THE ISSUE:

In the early days of electronification of markets, the maker-taker fee model was developed to incent and reward liquidity provision. This model was quickly adopted globally, including by TSX Equities in 2005 to preserve the competitiveness of Canada's interlisted securities. The concept was subsequently replicated by other Canadian marketplaces.

Maker-taker fees resulted in many benefits to the market and investors. Incentives spurred competition at the quote, bringing additional liquidity to Canada, lowering volatility, tightening spreads and improving prices for investors. However, over time concerns developed that the model increased transactional costs for liquidity takers, fuelled unnecessary intermediation, created potential conflicts of interest for dealers managing client flow, and contributed to fragmentation through the proliferation of trading venues competing solely on fees.

Subsequent changes to market structure, increased competition and enhanced trading capabilities led to participants developing more sophisticated trading strategies, resulting in reduced reliance on incenting liquidity through rebates. This has created opportunities to address concerns associated with the maker-taker model, without compromising liquidity, efficiency and spreads. In fact, in 2013, we chose to eliminate the maker-taker fee model on securities trading under \$1.00 on Toronto Stock Exchange (TSX) and TSX Venture Exchange (TSXV), and introduced an inverted fee model on TMX Select. These changes were welcomed and supported by the industry, however the maker-taker model remained the prevalent fee model for securities trading above \$1.00.

Increasingly, industry professionals in Canada and the U.S. have been re-evaluating the impact of current fee models on the efficiency, fairness and quality of markets. A number of proposals have recently been put forward that contemplate drastic reductions or an outright ban on rebates either through pilots or permanent policy changes¹.

We believe it is the right time to lower maker-taker rates, but it is imperative that we take a thoughtful, measured approach to determine the appropriate fee levels that will deliver benefits to market participants. We are mindful that an aggressive reduction or ban of rebates could negatively impact both the market and investors. Unintended consequences could include increased spreads, rising volatility as proprietary traders shift towards active strategies, and diminished liquidity for all but the most active securities. In addition, making any significant changes for interlisted securities out-of-step with the U.S. market could lead to reduced competitiveness of Canadian markets and an overall loss of liquidity.

¹ Publications: CSA Proposed Amendments to Order Protection Rule, Nasdaq Fee Experiment, BATS open letter, ICE's Six Recommendations for Reforming Markets, CSTA proposes cross border co-ordination of the Canadian rebate pilot

OUR CHALLENGE:

Address maker-taker fee levels in the Canadian environment without negatively impacting the liquidity, efficiency and competitiveness of Canadian markets.

OUR RESPONSE:

Optimize trading fees through a phased program of rate reductions.

TSX Equities is implementing a measured approach to reduce maker-taker rates. Current levels are no longer suitable, and a phased plan to reduce the fees and rebates will mitigate risks, safeguarding market quality and competitiveness. We believe this method is more prudent than an aggressive elimination of rebates.

Maker-taker rates on TSX, TSXV and Alpha will be reduced beginning June 1, 2015, subject to regulatory approval. Additional reductions of TSX and TSXV rates² are expected over the next two years, in 6 to 9 month intervals, until optimal levels are reached for the Canadian capital markets. The timing and extent of further reductions will be based on careful data-driven analysis and customer feedback.

To realize the greatest possible benefits for the market as a whole, it is imperative that the industry works together to support reduced reliance on the maker-taker fee model. To that end, we invite other marketplaces to follow this initiative by reducing rates in a concerted effort to improve conditions for all.

SUMMARY OF BENEFITS

Lower agency dealer costs

Less unnecessary intermediation

Reduced potential for conflicts of interest

Increased investor confidence

First Phase

The first phase will see rates reduced by up to 34%. The key fee changes are as follows:

TSX & TSXV	CURRENT		EFFECTIVE JUNE 1, 2015	
	ACTIVE	PASSIVE	ACTIVE	PASSIVE
INTERLISTED* EQUITIES PRICED ≥ \$1	\$0.0035	\$(0.0031)	\$0.0030	\$(0.0026)
NON-INTERLISTED EQUITIES PRICED ≥ \$1	\$0.0035	\$(0.0031)	\$0.0023	\$(0.0019)
EXCHANGE TRADED FUNDS	\$0.0030	\$(0.0026)	\$0.0023	\$(0.0019)
ALPHA				
EQUITIES PRICED ≥ \$1 AND < \$5	\$0.0025	\$(0.0021)	\$0.0018	\$(0.0014)
EQUITIES PRICED ≥ \$5	\$0.0028	\$(0.0025)	\$0.0018	\$(0.0014)
EXCHANGE TRADED FUNDS	\$0.0025	\$(0.0021)	\$0.0018	\$(0.0014)

* As per list published monthly by TSX

This phase alone is estimated to result in a 26% reduction of active fees and 31% reduction in passive rebates across all participant trading in these products on TSX, TSXV and Alpha.

As we continue to seek ways to reduce complexity in our market, this first phase will also include the elimination of volume-based pricing tiers and the Electronic Liquidity Provider (ELP) program on TSX.

For complete TSX, TSXV and Alpha trading fee schedules effective June 1, please visit tsx.com/tradingfees.

² Alpha's fee model is expected to change when the new market model launches in September 2015

Subsequent Phases

It is essential that we confidently determine the extent to which incentives can be removed without negatively impacting the quality and competitiveness of our markets. This will be an iterative process as the industry and trading activity adapts to each phase.

Implementation of subsequent phases in 6 to 9 month intervals will allow the industry to fully adjust to the changes, while also providing an opportunity for all participants to perform detailed impact analysis. We will publish measurements and observations so that all stakeholders may understand and contribute to the analysis and discussion.

YOUR ROLE

It is vital that we work together to reshape Canada's markets to best serve the needs of all traders and investors. To achieve an optimal state, the industry must be united in reducing reliance on the maker-taker fee model.

Please take the time to consider the implications and make your voice heard throughout the coming phases. Extensive feedback regarding the initial and subsequent phases is important to this effort. We will actively seek and welcome your input into the impact metrics and ongoing analysis.

Thank you in advance for your feedback and for working with us to make Canadian markets more efficient and more competitive.



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