

B.11

CIRO, Marketplaces, Clearing Agencies and Trade Repositories

B.11.3 Clearing Agencies

B.11.3.1 Fundserv Inc. (Fundserv) – Proposed Amendments to Fundserv Fees – Member Pricing – Notice of Commission Approval

FUNDSERV INC.
(FUNDSERV)

NOTICE OF COMMISSION APPROVAL

PROPOSED AMENDMENTS TO FUNDSERV FEES – MEMBER PRICING

Introduction

In accordance with the Rule Protocol Regarding the Review and Approval of Fundserv Inc. (“**Fundserv**”) Rules contained in Fundserv’s recognition order dated April 10, 2012, the Ontario Securities Commission approved amendments to Fundserv’s fee schedule related to member pricing (the “**Fee Schedule**”) on November 19, 2024.

Summary of Proposed Amendments

Fundserv proposed to amend its Fee Schedule to increase the existing network fixed fee, the file size fee and the file transfer fee that are applicable to all members (Distributors, Intermediaries and Manufacturers), and update the existing tier ranges of the tiered transaction fees for Manufacturers.

Comments Received

The proposed amendments were published for comment on May 2, 2024, and three (3) comment letters were received. A summary of the comments submitted, together with Fundserv’s responses, is attached as Appendix A.

Approved Amended Fee Schedule

In connection with the comments received, Fundserv decided not to modify the monthly network fee applicable to Distributors at this time to provide for the opportunity to seek additional stakeholder feedback regarding this aspect of the fee change.

At Appendix B is a blacklined version of Fundserv’s approved amended Fee Schedule with the change outlined above compared against the proposal published on May 2, 2024. At Appendix C is a cumulative blacklined version of Fundserv’s approved amended Fee Schedule compared against the current Fee Schedule.

Effective Date

The amended Fee Schedule will take effect on January 1, 2025.

Appendix A

Summary of Comments and Responses

Commenters

Federation of Independent Dealers

Invico Capital Corporation

Ridgewood Capital Asset Management

Comment

The percentage of the proposed change in fees is excessive and exceeds the rate of inflation.

The increase in the network fee and the introduction of transaction fees for transactions in the 0-500 transaction range favours large-scale manufacturers while disadvantaging small to mid-scale manufacturers.

Fundserv Response

Fundserv has not increased its fees since it was established in 1993. The Bank of Canada calculates a cumulative inflation rate of 87% since 1993. Based on transaction data from 2023, the proposed fee changes are expected to result in a year-over-year weighted average increase of 10.6% in aggregate fees paid to Fundserv by its members (the percentage year-over-year increase for each member will vary member to member based on volume). While this exceeds the 2023 rate of inflation (3.9%), it aligns more closely with the rate of inflation over 2022 and 2023, being 10.7%, especially when taking into account that a rebate was issued.

Fundserv did not take the need to increase fees lightly and carefully assessed the extent to which it needed to increase fees to enable it to cover projected future costs. Fundserv used the current environment and historical inflationary data, taking into consideration market adjustments for employment costs, higher insurance, audit costs and expected renewal charges for contracts with key vendors, to determine the extent of increases needed to cover its anticipated future costs. Accordingly, Fundserv does not view the increases to be excessive since they were determined on the basis of meeting Fundserv's projected future financial obligations. Finally, Fundserv is not proposing any change to its cost-recovery model and will continue our rebate practice to its members on an annual basis, which is consistent with its practice since inception.

Through the changes to each transaction pricing tier, Fundserv attempted to adjust the pricing to better reflect the costs that Fundserv bears to process such transactions. Each transaction that runs through the Fundserv network has a cost associated with it for Fundserv, **including** both external costs that are charged on a per transaction basis (like fees payable to Fundserv's telecommunication services providers and bank wire charges) and internal costs. Fundserv introduced a per transaction price for Tier 1 transactions because the first 500 transactions processed by a manufacturer do have a cost to Fundserv, and Fundserv believes it is important to start recovering costs on these transactions to meet its financial obligations over the long term.

For certain costs, efficiencies are realized when transactions exceed a certain level, and so the per transaction cost for Fundserv goes down, which allows it to charge a lower cost per transaction to its members at higher transaction levels.

Finally, we also note that for certain small volume manufacturers, Fundserv's pricing changes may result in a reduction of their total transaction costs. Currently, a manufacturer with 5,000 transactions pays \$5,175 for those transactions. With the proposed fee changes, a manufacturer with 5,000 transactions would pay \$5,050 for those transactions. Please see the analysis set out in Exhibit 1 below. We note that this analysis is specific to transaction costs and does not

The proposal to increase the \$100 monthly minimum fee for distributors to a \$200 flat fee (the “Distributor Fixed Network Fee”) represents a doubling of costs for the smallest mutual fund market participants.

The Distributor Fixed Network Fee moves away from the historical usage-based cost sharing, which shifts the burden onto the lightest users.

Fees that are not based on usage, like the proposed Distributor Fixed Network Fee, end up funding the rebate to large manufacturers, since the rebate is based on participation.

Fee increases will not entice international manufacturers to become Fundserv members for the purposes of Total Cost Reporting.

Fundserv has not recently proposed any value-added services aimed at distributors.

take into account the network fees, file fees and file transfer fees paid by manufacturers.

Fundserv has decided not to modify the monthly network fee applicable to distributors to provide for the opportunity to seek additional stakeholder feedback regarding this aspect of the fee change.

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The remainder of the pricing changes maintain the historical cost split between distributors and manufacturers of 25%/75%.

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Fundserv did not take the need to increase fees lightly and carefully assessed the extent to which it needed to increase fees to enable it to cover projected future costs. Fundserv used the current environment and historical inflationary data, taking into consideration market adjustments for employment costs, higher insurance, audit costs and expected renewal charges for contracts with key vendors, to determine the extent of increases needed to cover its anticipated future costs. However, the potential uptake of the use of Fundserv for international fund manufacturers for the purpose of assisting distributors with meeting their total cost reporting obligations was not a factor that could be reasonably incorporated into Fundserv’s assessment of the necessary fee increases.

Fundserv appreciates receiving feedback that may enhance its services. Fundserv maintains a funnel of requests to add or improve services that is maintained through its member portal, and Fundserv kindly requests that any requests for improvements to its services be made through Fundserv Connect.

EXHIBIT 1

Manufacturer Transaction Pricing Example

Current Structure				
Tiers		Number of Transactions	Fee per Transaction	Total Transaction Fees
-	500	500	\$ -	\$ -
501	2,000	1,500	\$ 1.25	\$ 1,875.00
2,001	7,500	3,000	\$ 1.10	\$ 3,300.00
7,501	15,000	-	\$ 0.75	\$ -
15,001	25,000	-	\$ 0.45	\$ -
25,001	50,000	-	\$ 0.20	\$ -
50,001		-	\$ 0.10	\$ -
Total		5,000		\$ 5,175.00

Proposed Structure				
Tiers		Number of Transactions	Fee per Transaction	Total Transaction Fees
-	500	500	\$ 1.10	\$ 550.00
501	5,000	4,500	\$ 1.00	\$ 4,500.00
5,001	20,000	-	\$ 0.75	\$ -
20,001	100,000	-	\$ 0.22	\$ -
100,001	1,000,000	-	\$ 0.10	\$ -
1,000,001	2,000,000	-	\$ 0.05	\$ -
2,000,001		-	\$ 0.01	\$ -
Total		5,000		\$ 5,050.00

Appendix B

Blackline of Approved Amended Fee Schedule to May 2, 2024 Proposed Fee Schedule

(see attached)

Fees

Per Each Transaction

[The minimum monthly network fee is \\$100. If fees incurred from file transfer and file size fees total less than \\$100, the Distributor will be charged the network minimum. If the total of file transfer and file size fees is greater than the minimum, the Distributor will pay the total.](#)

Distributor				
Code registration fee	Network fee (monthly)	File transfer fee	File size fee	Connectivity fee
1 st Code – Free Additional – \$150	\$200 <u>\$100 min.</u>	\$0.30 / file	\$0.0117 / 1,000b	*One time only \$500
Intermediary				
Code registration fee	Network fee (monthly)	File transfer fee	File size fee	Connectivity fee
1 st Code – Free Additional – \$150	\$1750 (Full N\$M Participant) \$500 per quarter (File Transfer Only)	\$0.30 / file	\$0.0077 / 1,000b	*One time only \$500
Manufacturer				
Code registration fee	Network fee (monthly)	File transfer fee	File size fee	Connectivity fee
1 st Code – Free Additional – \$150	\$1750	\$0.30 / file	\$0.0077 / 1,000b	*One time only \$2500

Transaction Fees (monthly)						
1st– 500th	501st– 5,000th	5,001st– 20,000th	20,001st– 100,000th	100,001st– 1,000,000th	1,000,001st– 2,000,000th	2,000,000th+
\$1.10	\$1.00	\$0.75	\$0.22	\$0.10	\$0.05	\$0.01

Appendix C

Blackline of Approved Amended Fee Schedule to Current Fee Schedule

(see attached)

Fees

Per Each Transaction

The minimum monthly network fee is \$100. If fees incurred from file transfer and file size fees total less than \$100, the Distributor will be charged the network minimum. If the total of file transfer and file size fees is greater than the minimum, the Distributor will pay the total.

Distributor						
Code registration fee		Network fee (monthly)	File transfer fee	File size fee	Connectivity fee	
1 st Code – Free Additional – \$150		\$100 min.	\$0. 25 30 / file	\$0. 04 0117 / 1,000b	*One time only \$500	
Intermediary						
Code registration fee		Network fee (monthly)	File transfer fee	File size fee	Connectivity fee	
1 st Code – Free Additional – \$150		\$450 1750 (Full N\$M Participant) \$500 per quarter (File Transfer Only)	\$0. 25 30 / file	\$0. 0075 0077 / 1,000b	*One time only \$500	
Manufacturer						
Code registration fee		Network fee (monthly)	File transfer fee	File size fee	Connectivity fee	
1 st Code – Free Additional – \$150		\$450 1750	\$0. 25 30 / file	\$0. 0075 0077 / 1,000b	*One time only \$2500	
Transaction Fees (monthly)						
1st – 500th	501st – 2,000th	2,001st – 7,500th	7,501st – 15,000th	15,001st – 251,000th	251,001st – 502,000th	50,000th on 2,000,000th +
Free	\$1.2500	\$4.100.75	\$0.7522	\$0.4510	\$0.2005	\$0.4001