

**Presentation by Maple Group and TMX Group**

**The Autorité des marchés financiers (AMF)**

**(Public hearings pertaining to proposed transactions by Maple Group with respect to TMX Group Inc. and other entities)**

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In order of appearance:

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**<CHECK AGAINST DELIVERY>**

## **LUC BERTRAND**

Good morning – and thank you for giving us the opportunity to be with you here today.

I am joined today by the Chief Executive Officer of TMX Group, Tom Kloet. Also with us is Alain Miquelon, President of Montreal Exchange. And, representing one of the Quebec-based investors in Maple Group, is Marie Giguère, Executive Vice President, Legal Affairs and Secretariat of the Caisse de dépôt.

We have submitted a proposal for your consideration that we believe will open a new era of prosperity and growth for TMX Group, the Montreal Exchange, the Quebec financial community and Canada's capital markets overall.

It is our belief that an integrated exchange and clearing group across the full spectrum of equity and derivative products offers significant efficiencies, creates the right conditions to drive increased economic activity and international investment in Canada and contributes to the ongoing stability of Canada's financial system.

Further, it is our belief that the model we are proposing will strengthen TMX Group's international position, which in turn will enhance our capital markets' ability to grow and win in an increasingly global and hyper-competitive financial marketplace.

The challenge before us is straightforward: Canada must enhance its efficiency in a world of global and mobile capital.

We are a relatively modest market, representing roughly 3% of global GDP and a comparable level of available global capital. And, to our south we have a competitor that is much larger than we are.

To compete – to become a more attractive destination for capital investment and market activity, we must enhance what we offer today, and do so in a compelling way.

The proposal we are discussing with you today achieves this goal.

### **Cross-margining benefits of CDS integration**

For example, the integration of CDS' cash clearing and depository services with TMX Group will provide important potential benefits to the market, such as cross-margining, capital re-deployment and risk management.

Brokerage houses trading equities and derivatives do not have the ability to view a consolidated report on a single screen. By integrating information and risk management systems of CDS and CDCC, we will change that and offer unprecedented simplicity and efficiency to the dealer community.

Dealers will be able to better understand their changing exposures and margin requirements and will have access to the information they need to more effectively net their aggregate positions. This can improve capital allocation and exposure to risk and lower their technology and connectivity costs.

For the Montreal Exchange, the efficiencies of cross-margining by the dealer community will contribute to an expansion of the capital available for investment and trading in derivative products, promoting the possibility of higher volumes and further growing the business.

In equity markets, this enhanced activity level may, over time, have the potential to deliver new opportunities for capital formation for Quebec companies - from the flagship brands to the smaller early-stage companies that are the lifeblood of Quebec's economy – this has the potential to deliver new opportunity for expansion and innovation.

### **CDS integration and improved risk management**

In addition, closer integration of trading, clearing and settlement of both equities and derivatives will allow regulatory authorities and the Bank of Canada to better monitor activity in order to more quickly identify and manage risk in the system. This has the potential to deliver far reaching benefits for everyone – including millions of investors across Canada.

Furthermore, the integration of CDS and CDCC under common ownership can provide a possible long-term solution to over-the-counter derivatives clearing. G20 countries have pledged to bring solutions to the OTC market by the end of 2012. Today, CDS and CDCC are collaborating on a solution for the repo market. Tomorrow, through a more integrated platform they can provide a more effective and robust solution for central counterparty clearing of OTC derivatives on fixed-income and equity securities overall.

If implemented, this would have the added benefit of additional scale, which would provide value to all dealers through lower costs and improved capital management. The expected positive impact to liquidity can ease the pressure of heightened collateral requirements under Basel III.

I want to stress here – we expect these benefits to support the success of all participants, large or small, associated with Maple or not.

### **Open access and pricing commitments**

To further demonstrate our objective to foster an inclusive environment, we have made written commitments, consistent with existing regulatory requirements, to maintain our

fees at fair and reasonable levels and to guarantee open access to all participants of CDS.

We will not introduce two-tier pricing models at CDS, and will implement a meaningful pricing policy that will reinforce our commitment to serve the market and deliver value to all participants. An announcement is expected on this in early December.

It is important to note that, following our transaction, bank-owned dealers' ownership levels of CDS will drop significantly to under 28% from today's majority ownership and control. And, CDS will become part of a publicly traded organization, along with all of the governance requirements associated with that status.

In addition, by moving CDS to a "for-profit" model from its current cost-recovery model, we will maximize cost reduction opportunities to invest in technology and infrastructure innovation in order to deliver a more efficient clearinghouse to Canada's markets.

We will also extend its product offerings to deliver value-added services to the marketplace in the same way that other commercially oriented clearinghouses have done around the world.

"For-profit" does not mean high prices. On the contrary – it means a focus on growth, on new ideas and innovations to attract new customers and expand the business. We have seen this work successfully in the demutualization of exchanges – and we will use that experience to build a more successful CDS.

### **A Commitment to Montreal**

In Quebec, a decision was taken in 1999 to specialize in derivatives. And, over the past 12 years, Montreal Exchange has been a catalyst for the development of this expertise in Quebec. The AMF has played an important part in this development.

We believe that our proposal is the logical next step on this journey and that it supports the continued development of Montreal's financial services sector.

Montreal Exchange will remain the Canadian national exchange for derivatives trading and the CDCC, based in Montreal, will continue to serve as our clearinghouse.

And, Montreal will be a Centre of Excellence for the development of derivative products and solutions, as well as for innovative research and development of leading-edge technology for the trading and clearing of derivatives.

To support this, we have reconfirmed every one of the undertakings made by TMX Group in 2008 regarding Montreal Exchange and the CDCC and have provided additional

undertakings designed to enhance Montreal's position in the derivatives sector in the years ahead.

### **Independent Governance**

We have also made strong commitments around the ownership and governance model, which has been carefully designed to ensure that no single group of shareholders has control over the institution.

- Following the completion of the transaction, it is expected that bank-owned dealers will own less than 28% of the institution.
- Approximately 46% will be owned by four of Canada's top pension funds, including the Caisse, Canada's largest insurance company, two independent dealers and two additional leaders in Quebec's financial community: Desjardins and the FTQ.
- The remaining 26% will be held by public shareholders.
- An important point: no shareholder agreements are in place to govern the decisions of Maple investors following the transaction.
- And, we will retain the existing 10% ownership cap currently in place with both the AMF and the OSC.

Furthermore, to ensure independence, a new Board will be formed for the new public company that embraces TMX Group's current sound governance model.

- A minimum of 50% of directors will be independent;
- 25% of directors will be resident in Quebec;
- 25% of directors will have expertise in derivatives;
- There will be representation on the Board from the independent dealer community.
- The Governance Committee as well as the Finance and Audit Committee of the Board will be comprised entirely of independent directors, and we will name an independent Chair to lead the TMX Group Board of Directors.

These measures, along with the various undertakings being made to the AMF and to other provincial securities regulators, will ensure TMX Group's vital role as a neutral, central marketplace in the service of all market participants.

### **Conclusion**

What we have proposed, with the support of TMX Group, is a plan that makes sense – a plan that serves all market participants and Canada's capital markets overall.

And, we believe, a plan that has tremendous potential value to Montreal and Quebec's financial community.

We believe in the future potential of Montreal Exchange and the CDCC. And, we believe that we can work together to build on TMX Group's clear strengths to be one of the most competitive exchange businesses in the world.

I thank you for your time and look forward to answering any questions you may have at the conclusion of our presentations.

I'll now ask Marie Giguere of the Caisse de depot to make a few remarks.

## **MARIE GIGUÈRE**

A few words about the governance structure proposed by Maple:

Maple has 13 investors: four are banks, four are pension funds, two are independent brokerages not affiliated with banks and the three others are Desjardins, Manulife and Fonds de solidarité;

Once the transaction is concluded, pension funds will be the shareholder category that collectively holds the largest aggregate percentage of Maple (between 28% and 35%). Some Maple investors, including the four pension funds, will sign an agreement with Maple, which will entitle them to appoint a representative to Maple's board of directors. This is an individual right and there will be no agreement amongst the investors with respect to the exercise of this right of appointment;

The Autorité as well as other observers are questioning whether Maple, given the exchange's public utility role, should apply different governance criteria than found in the current TMX rules. This divergence would have the effect of deeming directors named by the pension funds as non-independent simply because the pension funds hold an interest in Maple. This would also create an important new governance precedent. I will discuss this in greater detail this afternoon but I would like to remind you this morning of the pension funds' commitment to the principles of good governance.

I would like to point out that the pension funds all applied stringent governance rules in making their investment decision. OTPP, CPPIB and AIMCo are members of the Canadian Coalition for Good Governance, and the Caisse also collaborates with this organization. The pension funds applied these rigorous governance rules when reflecting on the appropriate makeup of the Maple board.

As such, all Maple investors recognize that the highest standards of governance must be applied so that Maple can carry out its trading and clearing operations while respecting the public interest. These standards must address such topics as restriction of

ownership beyond 10% as well as rules governing the composition of the board of directors.

It is with this public interest in mind that our board composition is being proposed, and we determined that the directors appointed by the founding Maple members other than the participating organizations should be considered as independent directors.

Lastly, the Canadian Coalition for Good Governance has clearly stated its position on the governance proposed by Maple in its comments submitted for the public hearings. The Coalition supports the rules proposed by Maple aimed at determining the composition of Maple's board. The Coalition mentions that in "absent any agreements or understandings to act formally or in concert, these considerations are not sufficient to depart from the accepted legal definition of independence".

### **ALAIN MIQUELON**

Thank you Marie.

As you know, from Montreal, we operate a world-class derivatives trading and clearing operation using local expertise and know-how. Since 2008, when we combined with TMX Group, our business has grown and is prospering.

Every day, new and innovative products are marketed from Montreal to investors around the world. And, new money is invested through the Montreal Exchange in Canada from abroad; strengthening our exchange as well as Montreal's importance on the world stage.

In 2001, volume was on average 51,000 contracts a day. In November of this year, we expect our average to be about 250,000 – a 400% increase.

In addition, volume on Montreal Exchange is up considerably since our combination with TMX Group. For example, average daily volume was 151,000 contracts in 2008. At the end of October of this year, we were at 250,000, representing a 66% increase. Our open interest has nearly doubled from just over 2 million in 2008 to over 4 million in just the first ten months of 2011.

To further underline the global nature of the derivatives business, we have only to look at our participant mix. Today MX has 52 participants from Canada. However, we now have 32 dealers from the United States – an increase of 6 – and a total of 7 from the UK. This represents an important shift in our business, and in our business development efforts.

We estimate that over 50% of our derivatives volume originates from outside Canada, further demonstrating the internationally competitive aspects of this business.

To support our growth in new markets, we recently opened a permanent office in London to more effectively market Montreal Exchange, and Montreal, to European clients in one of the world's largest financial markets.

Another important example of our domestic and international success is the SOLA clearing technology. Developed by technology and financial experts here in Montreal, SOLA is widely recognized as one of the world's top derivatives trading and clearing platforms.

It now represents the core technology for Montreal Exchange, CDCC and Boston Options Exchange – which is majority owned by Montreal Exchange. SOLA is also the technology infrastructure for derivatives trading for London Stock Exchange through its Turquoise market, the Oslo Borse and Borsa Italiana in Europe.

And, importantly, further enhancements of SOLA will be developed in Montreal.

Here in Canada, at the request of financial industry, we are developing the infrastructure for central-counterparty services for the Canadian fixed-income repo market. We expect it to be delivered to the market in the first quarter of 2012.

And, as Luc noted, I believe that our capabilities, especially when combined with CDS', will position us extremely well for the broader OTC derivatives clearing mandate currently under review by the industry.

Today, Montreal Exchange and CDCC employ 232 people. Though the number of jobs is largely unchanged since our combination with TMX Group, the nature of the positions has changed significantly.

As planned, following the combination, some adjustments were made to consolidate support and administrative functions. However, as announced at the time, those savings were reinvested in innovation and growth by hiring experts in complex financial products and in technology development. The result has been more value-added and skilled jobs – jobs that help drive overall local economic performance and enhance our city's competitiveness.

Looking at the business performance of Montreal Exchange, as I indicated earlier, the business growth has been very strong despite a generally low volatility level on our benchmark interest rate products.

Achieving our full potential in the derivatives sector is a shared goal among the leaders in Quebec's financial sector. To support the sector's continued growth, Montreal Exchange was one of the founding members of Finance Montréal, la grappe financière du Québec. Among the first priorities of Finance Montreal is to initiate work to

strengthen the derivatives sector. Montreal Exchange has been extremely active in this work, and has led the effort to build a plan that promotes our continued leadership in this sector.

Montreal Exchange now operates as part of a family of exchanges and marketplaces that contribute directly to Quebec's success.

- Toronto Stock Exchange is home to over 123 Quebec companies representing a combined market capitalization of over \$220 billion.
- Another 158 are listed on TSX Venture Exchange.
- And, so far this year, Quebec-based issuers have raised more than \$2.5 billion. We're proud of the work we've done to support their success.

I am very confident in our future and believe that Montreal Exchange will continue to grow and prosper in the years ahead.

We will continue to innovate and invest. We will continue to export our expertise in trading and clearing of derivative products around the world. And, this activity will be directed from Montreal.

Following Tom's presentation, I would be pleased to take any questions you may have. With that, I'll pass this over to Tom.

### **TOM KLOET**

Thank you Alain.

And thank you to the AMF for holding these public hearings.

As I have said many times, TMX Group and the markets we operate represent the cornerstone of this country's financial markets.

The decision before the AMF is an important one. It will have far ranging implications for Canada's capital markets – and their future competitiveness on the world stage. I thank you for the time and effort you are investing in this important matter.

We recognize our role and its importance to Canada and to Quebec. TMX Group is proud of the contribution we make. We have a clear responsibility to shepherd this institution for the benefit of the communities in which we operate and for the participants that rely on our exchanges.

Our Board shares this view, and takes its responsibilities to the broader marketplace and its adherence to TMX Group's public interest mandate very seriously.

In making the decision to support the Maple proposal, our Board took a broad and comprehensive view.

We carefully evaluated the impact on the Canadian capital markets. Through carefully-considered adjustments to the initial proposal – found in the support agreement – we assured TMX Group's independent governance as well as our ability to remain a central catalyst for Canada's markets. We believe this transaction will drive important benefits to capital market participants and will enhance Canada's competitiveness on the world stage.

We then took a careful look at the proposal in terms of our current business plan. Through this agreement, our ability to execute a business plan focused on growth is improved and accelerated, and our company's global position is strengthened even further.

We believe that this proposal allows us to move forward in a way that benefits all of our stakeholders right across Canada and here in Quebec. It opens new opportunities for growth while adding to the existing value we deliver to Canada's marketplace and the communities in which we operate.

### **The Right Path Forward**

The Maple proposal extends TMX Group the opportunity to build a fully integrated exchange and clearing group. We believe that this model will generate important benefits for all participants and the market overall.

In fact, for many years, we have promoted aspects of the model now being formally proposed by Maple. For example, combining CDS as part of TMX Group provides important efficiencies that enable us to grow Canada's markets at a faster pace and maximize our ability to compete and win in the international arena.

The incorporation of CDS into TMX Group will deliver a number of benefits to the market.

- Cross-margining will free up capital for our clearing members and will encourage trading activity across our markets.
- As this capital is redeployed, we expect that all markets – those owned by TMX Group as well as alternative trading systems – will see increases in activity and volume.

- This will lead to superior levels of liquidity, which in turn will attract additional investment, from across Canada and internationally.
- And, it will provide regulators with the ability to more rapidly and more comprehensively assess risk across all clearing venues and take action.

Combined, this model has the potential to deliver real, concrete value. Not only will fees continue to be benchmarked against the world's most efficient markets, but the variable and hard costs to dealers on our markets are expected to come down through technology and back-office integration.

For international investors, this represents a simple, effective and low-cost opportunity to trade and clear both cash and derivatives markets in Canada.

Here in Montreal, we believe it will allow Montreal Exchange to tap into newly available capital to promote enhanced trading activity, which in turn will allow us to develop and more effectively market new derivative products.

Over 150,000 jobs across Quebec are tied directly to the financial services sector, with another 150,000 linked to this sector through associated jobs in professional services, legal services and the large support eco-system that surrounds them.

In 2011 Global Financial Centres Index ranked Quebec in the 20th spot globally. That's an important step up from the 31st position in 2009.

Overall, this represents a strong foundation upon which to build for the future.

I'm very excited by the opportunities a fully integrated exchange and clearing group creates - for our institution, our employees, our customers, and all participants in Canada's capital markets.

In an international market in flux and undergoing rapid change, our ability to attract capital and liquidity to Canada, generate value for our customers and compete internationally is strengthened.

Last week, we opened a new office in China to help us capture new growth coming from the Asian market. As Alain mentioned, earlier in the year, we set up shop in London to market more effectively in Europe. And, there is more to come.

To succeed in the long-term and drive value and growth across our capital markets, we must seek ways to adjust, enhance our offer and expand rapidly and decisively.

The Maple proposal affords us an opportunity to do just that.

And, we expect the benefits of this model to deliver value to all marketplaces in Canada - including those that compete with us.

It will allow us to strengthen Montreal Exchange's position as Canada's derivatives exchange. It is our clear and stated intention to invest in the development of both MX and the CDCC, and to do so in Montreal.

Montreal is a recognized hub for development and innovation of derivative products and technology. Its future success in financial services rests on its ability to enhance its leadership and presence in this sector.

That goal is maintained and enhanced through this transaction.

### **An increasingly competitive market.**

Let me now briefly touch on the competitiveness of the Canadian market.

We see competition intensifying in the years ahead. The acquisition of Alpha will not stop this trend and we expect continued pressure on fees for us to remain competitive.

For example, regulators require dealers to route trades through whichever trading system offers the best price and competitors have established connectivity and sufficient capacity to handle large trading volumes across the dealer community.

A number of alternative trading systems compete with us daily for order flow. In October, the number of trades executed on Chi-X, for example, surpassed Alpha's and Chi-X also recently received new investment from global financial institutions. It is now a globally focused ATS, and its commitment to competing in Canada shows all signs of continuing.

In addition to this domestic dynamic, there is the important challenge of repatriating order flow on interlisted securities back from US markets.

As new mega-exchanges form and consolidation continues, our competitors grow in size and scope. They integrate new assets and expand their geographic reach. In a few years time, a small handful of groups may dominate the global landscape.

Make no mistake – TMX Group captures its fair share of the international pie. In some cases, such as the resource sector and in emerging early-stage companies, much more than our fair share. And there is huge promise in derivatives, as Luc and Alain have said. But, there is an enormous challenge ahead of us to reach our full potential.

The competitive forces have never been stronger, particularly as technology enables capital to be increasingly mobile. And, our ability to win is dependent on our ability to offer prices, technology and capabilities that are unique and attractive.

The only way to effectively compete, enhance market activity and attract new investment is to offer the most streamlined, efficient and cost-effective portfolio of solutions.

## **Conclusion**

Fundamentally, everything that you have heard from us today tries to answer four basic questions that go to the heart of the entire proposal:

1. Will capital markets be better served by a TMX Group that combines cash and derivative trading and clearing? Not just locally, but internationally as we compete for our share of global capital.
2. Can the clearinghouses and exchanges owned by TMX support a public interest mandate within a for-profit model that focuses on growth and innovation?
3. Do our regulators have the power needed to provide adequate oversight to ensure that our actions and activities support the goal of developing a quality market?
4. And, specific to the AMF and to the Quebec market, will this transaction enhance Quebec's leadership in derivatives and contribute to the growth of Quebec's financial services sector?

We believe the answer to each of these questions is a resounding yes.

Through carefully crafted governance provisions, strong undertakings to regulators, and an independent Board, we believe we have struck the right balance in order to capture new growth for all while protecting the value, service and benefits that we offer today.

This is an opportunity that we hope to seize - with your support - and we will work with Maple's investors, all market participants and our regulators both here in Quebec and across the country to help our capital markets reach their full potential.

Thank you once again for your time today.