

Presentation by Maple Group and TMX Group

Ontario Securities Commission

Policy Hearing on Maple Group proposal

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In order of appearance:

Luc Bertrand

Vice Chairman

National Bank Financial Group

William Royan

Vice President, Relationship Investing

Ontario Teachers' Pension Plan

Kevan Cowan

President, TSX Markets and Group Head of Equities

TMX Group

Tom Kloet

Chief Executive Officer

TMX Group

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LUC BERTRAND

Good morning.

Mr. Chairman, members of the Commission – I want to thank you for giving us the opportunity to be here today.

Before I begin the formal presentation, I would like to briefly address the release we issued Tuesday evening regarding our ongoing dialogue with the Competition Bureau. We would like to thank the Commissioner for her candid comments and for providing us with the opportunity to address the issues she raised. Our work with the Competition Bureau continues and we will update the market on its progress at the appropriate time.

Last week, we appeared before the AMF and presented our case to the Quebec regulatory authorities. Some of what you will hear today is similar to last week's presentation. However, we will take the time to comment on a number of the issues raised specifically by the OSC and by those who submitted letters in response to your request for comments.

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 many times larger than we are.

Our proposal represents a unique opportunity to strengthen Canada's capital markets, and to do so in a responsible and careful manner.

The Maple investors came together due to our belief in the future of TMX Group and a shared desire to see the company and our markets overall reach their full potential. We are very pleased that the Board and management of TMX Group support this proposal and that Tom Kloet and Kevan Cowan are here with us today.

TMX Group represents critical infrastructure that support our capital markets' activity. However, there is one important component that is missing.

The incorporation of CDS and Alpha with TMX Group's other assets will help to build a competitive capital marketplace for the benefit of all participants.

We believe that an integrated exchange and clearing group across the full spectrum of equity and derivative products offers significant benefits for all market participants 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 and enhance our capital markets' ability to grow and attract new activity in an increasingly global and hyper-competitive financial marketplace.

Benefits of CDS integration

The integration of CDS' cash clearing and depository services with TMX Group will provide important potential benefits, such as cross-margining and capital re-deployment opportunities for participants and improved risk management.

To unlock this potential, it is imperative that CDS adopt a for-profit business model to create the necessary incentives for innovation and growth inherent in that type of structure.

"For-profit" does not mean high prices. On the contrary – it means a focus on growth, on new ideas, and on innovations that will 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.

It will motivate cost reduction and help fund investment in technology and infrastructure innovation in order to deliver a more efficient clearinghouse to Canada's markets.

It will also motivate the expansion of the product offering and help CDS deliver new value-added services to the marketplace in the same way that other commercially oriented clearinghouses have done around the world.

- For example, brokerage houses trading equities and derivatives do not have the ability to view a consolidated report on a single screen today. By integrating information systems and risk management reporting of CDS and CDCC, we will change that and offer unprecedented simplicity and efficiency to the dealer community while lowering their own back-office, technology and connectivity costs.
- Dealers and the clearing agencies will have access to the information they need to more effectively net aggregate positions. This can improve capital allocation while ensuring appropriate risk management.
- CDS, once incorporated with the other activities of TMX Group, will be able to development new, innovative products that take advantage of this more integrated approach.
- Overall, this will contribute to increased scale of operations over time, further strengthening the group and its ability to compete internationally and acquire new assets.

I want to stress here that we expect the anticipated benefits and new capabilities to support the success of all participants, large or small, associated with Maple or not.

CDS integration and improved risk management

A TMX Group that clears cash and derivatives will assist regulatory authorities and the Bank of Canada to more effectively monitor risk throughout the system and establish early warning triggers to help prevent escalation. This has the potential to deliver far reaching benefits for everyone – including millions of investors across Canada.

Furthermore, with CDS and Montreal Exchange's derivatives clearinghouse, the CDCC, under common ownership we 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.

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.

Open access and pricing commitments

To further demonstrate our commitment to an inclusive environment, we will, consistent with existing regulatory requirements, maintain our fees at fair and reasonable levels and guarantee open access to all participants of CDS.

CDS and CDCC will build upon the existing advisory committees comprised of market participants to further improve responsiveness to the needs of these participants for new and improved products and services.

CDS is an international price-leader in the delivery of cash markets clearing. To remain competitive, and to attract new activity to Canada, it is imperative that CDS' competitive clearing costs be maintained and enhanced.

We will not introduce two-tier pricing models at CDS for clearing and settlement, 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 the days ahead.

We believe that it is important for the Commission, Maple, TMX Group and CDS to have a common understanding of the overall regulatory framework at the outset. This includes the rules regarding access, fees and the for-profit model. Therefore, we have asked that regulatory authorities, including the OSC, approve these transactions concurrently.

Currently, both the OSC and the AMF co-regulate CDS. We are confident that Maple can work effectively with both regulators as you seek to extend this regulatory cooperation to TMX Group and Maple overall. All TMX Group exchanges have a history of working constructively with multiple securities regulators.

Our proposal is about moving forward, capturing new opportunity and growing the market for the benefit of all participants. Your partnership, cooperation and sound oversight will help us to succeed.

Conclusion

Technology has made capital mobile, and the battle to win investment dollars and attract market activity has never been more intense.

The proposal before you today is a first step at meeting the demands of this global reality.

- First – we bring in CDS and Alpha, offer new solutions and maximize our capital market's operational effectiveness and efficiency.
- Then – we use this enhanced capability and offering to attract new capital and activity to Canada's markets.
- And, finally, the additional scale and activity will better position us not only to compete internationally, but to grow – both organically and through strategic partnerships and acquisitions that further strengthen Canada's markets.

My colleague, Bill Royan of the Ontario Teachers' Pension Plan will walk you through what we believe to be a fair and inclusive governance structure that ensures neutrality, enhances performance and maintains TMX Group's ability to serve all market participants and fulfill its critical public interest mandate.

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

WILLIAM ROYAN

Thank you Luc. And thank you to the Commission for your time today.

The investors in Maple all recognize TMX Group's unique role. It was discussed at length with TMX Group over a number of weeks and their contribution helped us to refine a governance structure proposal that delivers on a number of important criteria:

- First – that TMX Group and all relevant businesses, including CDS, preserve their ability to carry out their public interest mandate.
- Second – that the new Board be comprised of a fair, meaningful and diverse group of directors capable of serving the needs and interests of the diverse group of relevant stakeholders
- Third – that the governance structure and policies ensure that the expected benefits of this transaction flow through to all market participants whether associated with Maple or not.

- And, fourth – that the investors in Maple, who collectively are allocating significant resources to this transaction, are represented in a manner that is equitable and fair as shareholders of the company.

Each of the Maple investors agrees that TMX Group is a strong company, with strong future prospects for growth. And, we believe that the proposal we have submitted will further strengthen both the company as well as the benefits it delivers to all market participants.

Regarding Board composition, we believe the proposed Board meets the criteria for fair, meaningful and diverse representation.

The Board will include a balance of representation from bank-owned dealers, who are users of the exchanges, four pension fund investors, an individual selected from an independent investment dealer, an independent Chair, four independent directors from the current TMX Group Board and the Chief Executive Officer.

Eight of the fifteen directors have no connection to management of the TMX Group or to any of the participating organizations using the facilities of the exchanges in any significant manner.

In addition, pursuant to undertakings made to various regulators across Canada, the Board will include representation that ensures both regional and subject matter expertise – such as in derivatives and in public venture markets. This reflects the current regulatory requirements and Board composition commitments of TMX Group, as well as an enhanced focus on specialized expertise. We believe this structure appropriately balances the skills and expertise needed today with the flexibility to address future needs as the business grows and evolves.

A strong, diverse and highly knowledgeable Board is being proposed, with broad experience in capital markets and in financial services. Each of the individuals nominated to the Board bring the highest integrity to the work ahead and have a track record of performance and service that is exemplary.

To further enshrine the principles of independence, the Finance and Audit Committee and the Governance Committee will have only independent directors. Two existing TMX Group directors will be members of the Governance Committee. Among the responsibilities of that key committee will be to approve all board nominees, regardless of nomination rights.

In addition, our governance structure ensures that no single institution or group of shareholders would control or have undue influence over the organization.

The Maple investors are committed to working together to facilitate the transactions but we have made no agreements and will not act either jointly or in concert in the future.

The Maple the ownership structure maintains and respects the existing 10% ownership cap currently in place with both the AMF and the OSC.

We believe that taken together, these considerations provide the right balance and respect the corporation's public interest mandate and support the development of exchanges and businesses that benefit a broader stakeholder community, including shareholders, employees, listed issuers, market participants and the public capital markets overall.

We are very pleased that our proposed Board composition and our definition of independence are supported by the Canadian Coalition for Good Governance.

With regard to CDS' governance, we believe that it is critically important that clearing Boards include directors with technical expertise, industry experience and a commitment to the successful and efficient operation and evolution of the clearinghouse.

The eleven-person Board of CDS will include five Maple-nominated directors, five independent directors and the CEO of CDS. We will invite the IIAC and IIROC to propose a nominee to the Board. In addition, to ensure the necessary technical expertise, at least four of these CDS directors must be active users of the clearinghouse.

This structure, along with the advisory committees mentioned by Luc, provides the right balance of independence and deep market know-how needed to effectively govern CDS for the benefit of all participants.

I want to point out that the proposed ownership structure of TMX Group provides for a broad constituency of shareholders and also preserves the company's public listing and all of the rules and regulations associated to it.

Depending on the final tally of shares tendered:

- approximately 26% of the company will be widely held by the public;
- approximately 46% will be owned by four of Canada's top pension funds, Canada's largest insurance company, two independent dealers, Canada's leading financial cooperative and a leading Quebec capital development fund;
- the remaining 28% will be held by the four bank-owned dealers.

Following the acquisition of TMX Group and Alpha, each investor, including participating organization shareholders, will remain free to direct transactions to any marketplace as they feel appropriate to serve their clients, advance their own business goals and respect Canadian securities laws and best price and execution requirements.

And, with limited non-compete agreements in place among the Maple investors regarding significant equity investments in alternative trading venues, the risks for conflict of interest are further minimized.

Fundamentally, there is a clear alignment of interests between shareholders and the exchange's public interest mandate.

Shareholder value will be created by ensuring that we continue to operate quality markets that benefit all participants, preserve open access and low fees, increase capital flows, improve liquidity and compete more effectively on the international stage. This can only be achieved by acting in the public interest, without which investors and participants alike would seek alternative venues through which to conduct business.

I thank you for your time, and look forward to taking any questions you may have. With that, I'll pass this over to Kevan Cowan.

KEVAN COWAN

Thank you Bill. And good morning.

The competitive forces at work in our equity markets have never been stronger. This is the case in both our trading and listings markets, particularly as technology enables capital and order flow to be increasingly mobile, and as the forces of globalization accelerate.

Technology Encourages Significant Competition

Competition in trading is increasing due to the accelerating impact of a variety of converging forces, including the regulatory regime, the multi-market environment (both domestic and international), technological change, the advent of highly sophisticated and highly mobile electronic traders, the worldwide trend to both dark and off-exchange trading, and increasing direct customer pressure.

For example, under existing regulatory rules, dealers are required to route orders to whichever trading system offers the best price. To attract and facilitate this flow, our competitors have established the capacity to handle large trading volumes from across the dealer community.

In addition, with the development of the ever "smarter" smart order routers in use among our competitors and our customers, and their ability to navigate the fragmented marketplace and real-time events in sub-milliseconds, the aggregation of liquidity is increasingly occurring within the smart order routers. This provides an important mechanism through which our competitors can attract liquidity. Market participants, both domestic and international, now view different trading venues as a single, interconnected source of liquidity. This is an example of the technological change that has lowered barriers to entry for new alternative trading systems.

We expect existing ATSs, as well as potential new domestic and internationally-owned entrants, to take advantage of these existing technology solutions to rapidly gain traction as competitors and apply ongoing pricing pressure on our business.

Of further benefit to ATSs, high frequency traders that use algorithms to trade and form liquidity in both lit and dark markets can quickly contribute to the successful growth of incumbent and potential competitors.

Domestically, in addition to Alpha, a number of alternative trading systems compete with us daily for order flow.

- For example, in October, the number of trades executed on Chi-X surpassed Alpha's, demonstrating their continued traction in the market.
- In August of this year, Goldman Sachs announced the launch of SIGMA-X Canada. To quote a senior executive of Goldman Sachs: "The growth potential of the Canadian equity market is significant. We believe unique, alternative pools of liquidity will continue to play an important role in the Canadian market's development."
- And, other competitors such as Omega ATS and Pure Trading – which is owned by CNSX – continue to hold market share and have connectivity across the dealer community.

All of these alternatives have proven to be sustainable, have excess capacity, and exert competitive pricing pressure even at relatively low levels of market share.

In addition, we are facing increasing competitive pressure from off-exchange trading, including trading in dark pools and on dealer based crossing networks. This is trading volume or liquidity that cannot be seen by investors, but can match with investors' orders. This activity is often conducted directly between dealers, does not appear on any exchange, and provides a fast growing source of competitive pressure to TMX Group exchanges.

In the U.S., despite declining equity volumes overall, dark liquidity has grown in recent years. This demonstrates the future potential for dark trading in Canada, which has grown from approximately 1.5 % to 5% of the Canadian market just this year, and is expected to grow to approximately 15% of total market volume within the next five years.

Equity trading competition is also coming directly from international venues. TSX-listed securities inter-listed with U.S. exchanges now see an important level of activity conducted south of the border. Repatriating that order flow back to Canada is an ongoing and active effort and we believe the additional scale and efficiency proposed by Maple will assist us in bringing equities trading activity back to Canadian exchanges.

As customers implement and take advantage of advancing technology, they are increasingly empowered to exert direct pressure on exchange-based trading fees. Given the rapid growth of trading alternatives, trading customers have more options, both internal and external, and both on and off-exchange, than at any point in their history.

The competitive forces have never been stronger, particularly as technology enables capital to be increasingly global and mobile.

In terms of equity listings, this is an international business by its very nature. Every day, we compete with markets in the United States and around the world for both Canadian and international issuers. Toronto Stock Exchange teams work around the world to promote the value of Canadian capital markets and to attract business and activity to Canada – activity that the Toronto Financial Services Alliance estimates employs roughly 20,000 people directly or indirectly in the Toronto Region alone.

The successful work we do on this front must and will continue.

Successful Issuer Regulation within a For-Profit Enterprise

Before I pass this over to Tom, I do want to very briefly touch on one additional topic.

The OSC's request for comments raises our issuer regulation obligations in relation to our commercial objectives as a for-profit exchange. As the OSC points out, even a perception of conflict can be detrimental. We have made careful note of your comments, and look forward to addressing these in accordance with our ongoing dialogue and the recent OSC audit.

However, I firmly believe that rather than presenting a conflict, at root these two roles are actually very complementary. Our commercial interests are completely aligned with the public interest. Market integrity and investor confidence are at the core of our commercial success, and the continuation of that success is possible only if we maintain a quality market respected across Canada and around the world.

The words "Listed on TSX" must be words spoken with pride by every issuer and every public Canadian company. We devote extensive resources to upholding the highest possible standards and have a strong track record of performance.

Toronto Stock Exchange and TSX Venture Exchange operate in a 100% transparent environment. Each decision we make, each issuer approval, each shareholder vote we request, is immediately seen and evaluated by the entire financial sector. Over and above that, we are licensed and overseen by you on an ongoing basis, for example all public interest policy changes are subject to your approval process.

Standards matter. Reputation is critical. The integrity of the market is our competitive advantage. These are the foundations upon which our business is built.

With that, I'll pass the floor to Tom to conclude today's presentations. Thank you.

TOM KLOET

Thank you Kevan.

Chairman Wetston, members of the Commission, thank you for allowing us to appear before you today.

TMX Group is today a strong business, which operates successful markets across a wide array of financial instruments.

- Our exchanges are the destination of choice for global mining, oil & gas and other resource companies – from giant global players to small emerging exploration companies. We have also built a strong franchise in key sectors such as the emerging clean technology sector where our leadership extends outside of Canada's borders.

- In addition, we have the know-how and capability to serve small and medium sized enterprises better than any exchange group in the world. They are the lifeblood of the Canadian economy and choose our exchanges and Canada's markets to fund their growth.
- Our derivatives trading and clearing business is seeing a record year in 2011, with average daily volumes reaching new highs. As mentioned earlier, CDCC continues to innovate and to deliver new solutions, such as for the Repo market.
- We deliver real-time market data and information required by Canadian and global participants to trade and conduct business in Canada.
- We are a leader in the energy and natural gas markets.
- And, our footprint is expanding outside of Canada's borders, with new offices in London and Beijing joining established operations in Chicago and Houston.

I am proud of our accomplishments and of the team at TMX Group.

Our performance has been strong and our future prospects remain very attractive. However, our focus is on the longer-term – on delivering growth and on driving activity to Canada as effectively as possible.

Over several weeks this past summer, we held extensive talks with Maple and its investors. In parallel, our Board took a careful look at their proposal and the potential benefits to all stakeholders. As we indicated from the very first day we received Maple's offer, many of the elements of their proposal seemed interesting. Following termination of our binding agreement with LSE Group we opened detailed discussions with Maple.

We take our responsibilities to the broader marketplace and its adherence to TMX Group's public interest mandate very seriously. In making its final determination, the Board took a broad and comprehensive view.

First, we carefully evaluated the impact on the Canadian capital markets and on our ability to operate in the public interest.

Through carefully-considered adjustments to Maple's 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. Importantly, we believe that the structure is consistent with our public interest mandate, and allows us to serve all participants and continue to develop a quality marketplace with the upmost integrity.

We then evaluated the proposal in terms of our current business plan. It became evident that we share a common vision with Maple. As part of their proposal, our ability to execute our business plan is improved and our company's international competitiveness is further enhanced.

We are confident in our decision and extremely pleased to move forward.

The vitality of Canada's financial sector is critical to our national economy. Here in Toronto, close to 300,000 people work in the financial services sector, a sector that contributes approximately 20% of this region's GDP.

TMX Group is a direct contributor to this sector's growth. On Toronto Stock Exchange, for example, we currently list 781 Ontario issuers, both large and small, with a combined market capitalization of over \$815 billion. Our ability to help them raise capital to fund growth and new projects must be maintained and enhanced.

I am proud of TMX Group's partnership with the Toronto Financial Services Alliance. My leadership team and I work closely with them to promote this city in international markets. I was recently in Chicago with TFSA President Janet Ecker to speak to the local financial community, and earlier this week an executive of the TSX listings team joined the TFSA in New York for a similar event.

Our ability to serve the financial sector, in every region of Canada, is a role we take seriously and are committed to for the long-term.

The Global Context

Through foresight, sound regulation, and careful decision-making, Canada's economy has remained relatively strong compared with much of the world. Today, Canada is seen as a stable and healthy market in a world of uncertainty.

Although we remain one of the world's leading economies, we are not among the top five, and must be smarter, stronger, faster and more efficient to compete effectively.

The United States, though fragmented into multiple listing, trading, clearing and derivative marketplaces and exchanges, is home to the most powerful and capable exchange competitors in the world. And, they operate in our time zones, within an hour of our major financial hubs.

In fact, the New York Stock Exchange, is about to conclude an historic merger with Deutsche Börse to create the world's largest exchange group and a fierce global competitor.

We also note the additional consolidation taking place in the exchange sector around the world.

The UK Competition Commission, for example, has just concluded that the merger of BATS Global Markets Inc. and Chi-X Europe Ltd. "is not likely to result in a substantial lessening of competition in trading services for UK-listed equities" and believes that the ease of using and launching alternative venues will keep fees in check.

In Japan, the main equities and derivatives markets just announced a combination that will create a new more integrated Asian player and competitor.

In parallel, the introduction of new technology and new trading strategies across markets and dealers worldwide has changed the nature of the exchange sector. Capital is more mobile today than at any time in history. And, we believe that this trend will only accelerate in the years ahead.

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

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

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.

An Exchange and Clearing Group Focused on Growth and Innovation

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 fixed 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.

We note the concerns expressed by a number of stakeholders regarding change of status for CDS to a “for-profit” model.

When exchanges first started to demutualize and became for-profit entities over a decade ago, many of the same concerns being voiced today were heard then. What transpired, I believe, speaks for itself.

Toronto Stock Exchange, today, is a far more effective marketplace than it was a decade ago. The company's workforce includes entrepreneurial, innovative and forward-looking professionals who have driven literally millions of dollars out of the cost structure. Those savings were reinvested in technology, new products, an expanded global footprint and increased marketing and business development activity.

In parallel, the trading fees have come down by roughly 90% since 1999, a trend that started well before the introduction of competing venues in Canada.

A strong track record of performance also exists at Montreal Exchange, and its derivatives clearinghouse CDCC – which operates in a for-profit model. Combined, they provide a highly competitive and innovative derivatives trading and clearing destination.

We expect that ten years from now, when people look back on this transaction that we are proposing today, they will recognize that it has been similarly beneficial to Canada's capital markets.

Since the specialization of markets implemented in 1999, we have successfully built a diverse set of skills and capabilities in key regions across Canada and in our core businesses. Our ability to share that knowledge across our network and deliver value across Canada is a key component of our success and contributes to the success of Canada's capital markets. We believe this will continue.

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 Group provide benefits to all market participants within a for-profit model that focuses on growth and innovation?
3. Do our regulators have the power needed to effectively oversee our activities and ensure that our actions support the goal of developing a quality market?
4. And, fundamentally, does the proposed governance and ownership structure provide the independence required to ensure our continued performance in the public interest?

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.

We will be in a better position to capture new growth internationally. And, we will continue to act in the public interest, by maintaining quality markets that deliver the value, service and benefits required by the broader marketplace.

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

Thank you once again for your time today.