



**Remarks to the  
Select Committee of the Legislative Assembly of Ontario  
Proposed Transaction of the TMX Group and  
London Stock Exchange Group**

*By Philip Smith, Chair, Investment Industry Association of Canada, March 9, 2011*

Thank you for this opportunity to appear before the Select Committee of the Legislative Assembly of Ontario on the Proposed Transaction of the TMX Group and the London Stock Exchange Group. My name is Phil Smith. I am the Chair of the Investment Industry Association of Canada – IIAC for short – and also Managing Director, Investment Banking and Deputy Head, Global Investment Banking at Scotia Capital Inc. I am joined today by Ian Russell, President and CEO of IIAC, and Roman Dubczak, Vice-Chair of the IIAC. Roman is also Vice-Chair and Managing Director, and Head of Equity Capital Markets, at CIBC World Markets Inc.

The IIAC is a member-based, professional association that advances the growth and development of the Canadian investment industry by acting as a strong, proactive voice to represent the interests of our members and the investing public. Our nearly 200 members range in size from small independent regional firms to large bank-owned organizations that employ thousands of Canadians across the country.

We serve clients from Canadians with modest incomes just starting out on their careers to seniors in retirement to large institutional investors and from start-up and emerging companies that are the engines of growth in Canada to large Canadian multinational firms.

One of IIAC's four strategic objectives is to build more efficient and competitive Canadian capital markets, to improve the savings and investment process, and to facilitate capital formation in Canada.

In increasingly competitive international markets, it was just a matter of time until the TMX Group would be sought out as, or would find, a global partner, consistent with the trend towards global consolidation of stock exchanges. Consolidation among stock exchanges has been occurring in earnest for the past decade and has accelerated in recent months, with announcements of the ASX-SGX, TMX-LSE and Deutsche Börse-NYSE mergers, among others.

Our member firms understand the rationale behind these mergers. We support global integration and consolidation of markets in principle, as this should improve access to, and reduce the cost of, equity capital for listed companies. This should offer the opportunity to lower transaction costs, assuming shareholders of the combined exchange groups share the financial benefits of technology and other synergies from the merger with issuers and investors.

We are pleased that you have undertaken to examine the proposed transaction. While change is inevitable, we think that it is both important and possible to influence change to best advantage Canada's national interest. As an attachment to our written submission, we include an example of new Australian and Singapore stock exchange commitments to strengthen their October 2010 merger proposal, announced four months after the exchanges first disclosed their intention to merge.

We believe that Canada's national interest requires that we look at four key areas that affect Canadians and the Canadian economy:

- First, does the transaction support or detract from our capital markets? Capital markets are the key to our vibrant economy and last year, the Milken Institute, a U.S.-based economic think tank, rated Canada as the number 1 market for access to business capital.
- Second, does the transaction promote or impede capital-raising in this country? The investment industry – with its combination of domestic and foreign-owned dealers – must be able to convert efficiently multiple small and large pools of savings into productive investment.
- Third, does the transaction help issuers, and in particular the small issuers that make the TMX the exchange with the most listings in the world? Indeed, over 150 TSXV issuers graduated to the TSX between 2007 and

2009, generating jobs, income and taxes for Canada's and Canadians' benefit.

- Fourth, will the transaction increase costs for investors and other market participants? Does it allow for small niche investment dealers serving needs of retail investors, as well as larger firms to operate, leaving investors of all sizes with choice? A governance model that includes some provision for transparent competitive pricing policies would be helpful.

The challenge we collectively face is trying to make decisions when many details are not yet known. Our comments today, based on input from our member firms and industry committees, are offered based on what we know. As we learn more, we may have further input, although we know you are working to a very tight deadline.

Our views are based on the premise that it is inappropriate to judge the merger against what might have been or could be. This is the merger negotiated and agreed to by two boards of directors. We believe the responsibility of governments and regulators is to judge this particular merger on its merits in terms of impact on Canadian markets, market participants and the economy.

The Association's observations are as follows:

1. The evidence from the previous trans-Atlantic merger of Euronext and NYSE, and likely absence of regulatory harmonization between the U.K.'s Financial Services Authority (FSA) and Canadian regulators in the near term, suggests cross-listings of TSX listed companies will be minimal. Large Canadian companies interlisted on the NYSE and Nasdaq will continue with these interlistings, given the substantial pools of liquidity they represent already. Will liquidity benefits attributed to TSX-LSE interlisting emerge or will there be significant costs for interlisting and cross-registration? An expedited review by Canadian and U.K. regulators of the merits of mutual recognition of listing requirements should be an important first step, with concrete action to follow to yield the benefits of cross-listing.
2. A change in primary listing by a significant number of Canadian companies would shift trading and financing activity to the London market to the detriment of the Canadian dealer community and Toronto financial infrastructure. Is this likely to occur on any large scale? What are the potential implications of a shift in primary listings to London from the TSX, particularly for mid-sized Canadian companies with most of their assets held outside Canada? Additional analysis – to understand whether a shift in primary listings would be significant and its impact on the clusters of expertise and jobs here – would be welcome.

3. The merged exchange group may resort to greater reliance on market data revenue by charging higher prices, particularly if revenue and cost synergies from the merger fail to materialize. Both stock exchanges now rely heavily on the high-margin market data business for earnings performance. What steps can be taken to ensure fees remain responsive and competitive in the Canadian context? Canadian regulators should become more pro-active in introducing regulatory restrictions on market data pricing, similar to Securities and Exchange Commission (SEC) regulations in the United States.
  
4. There will likely be an accelerated move to integrate “best in class” technology for cash and derivatives trading on the exchanges in the merged group. What is the technology integration strategy? What are the expected magnitude and timing of the changes and their impact on the costs borne by market participants? Also, what are the risks of integrating new technology, including possible market dislocation? We think the TSX and LSE Groups should provide a detailed assessment of the timing and likely effect of proposed technology changes on the cash and derivatives markets.
  
5. Technological advances are key to the competitive success of the merged exchange group. The combined exchanges will focus considerable resources on technology integration and the development of new trading and clearing technology. Will the merged group establish a key centre or

centres for technology expertise and where would it or they be located? Clarifications from the exchanges would benefit those examining the transaction.

6. The decentralized structure of the merged stock exchange group can be expected to lead to rationalization in the event of a market downturn or if market synergies fail to materialize. How might this play out? We would appreciate understanding what a contingency plan for the possible rationalization of organizational structure and the decision-making mechanism might look like.

We hope these comments help the Committee better understand the transaction's impact on the Ontario financial community and more broadly, and its possible influence longer term on the Ontario economy. We are confident that the merger proponents will be open to suggestions to clarify and address aspects of this merger transaction raised as legitimate concerns by your Committee and others reviewing the proposed merger.

We thank you for this opportunity to appear before you and look forward to the outcome of your review. Ian, Roman and I would be pleased to answer your questions.