

THE MERGER BETWEEN THE MONTRÉAL EXCHANGE AND TSX GROUP: A POTENTIALLY GOOD MOVE

Brief of the Board of Trade of Metropolitan Montreal

Submitted as part of the public consultation held by
the Autorité des marchés financiers on the stock
exchange merger

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Board of Trade of Metropolitan Montreal

Preamble

The Board of Trade of Metropolitan Montreal has some 7,000 members. Its mission is to represent the interests of the Greater Montréal business community and to offer an integrated range of specialized services helping individuals, merchants, and businesses of all sizes realize their full potential in terms of innovation, productivity, and competitiveness. The Board of Trade is the largest private organization in Quebec devoted to economic development.

Introduction

The Board of Trade of Metropolitan Montreal is very pleased to participate in the consultation on the proposed merger between the Montréal Exchange and the Toronto Stock Exchange. First, the Board of Trade would like to underscore the importance of this process – both for the development of Montréal and its businesses – that could result in the amalgamation of the Montréal Exchange and the Toronto TSX into the TMX Group.

The Board of Trade would like to make some observations and recommendations about the merger, notably, as regards promoting the strengths of the Montréal Exchange and, particularly, the governance of the new TMX Group and its entities.

Promoting the strengths of the Montréal Exchange

First and foremost, it bears mentioning that in today's globalized economy, competition is increasingly being waged among large urban centres, now considered the real engines of wealth creation and innovation. As such, cities absolutely must create an environment that can attract talent and investment.

Therefore, just like quality of life, modern urban infrastructures, access to a qualified and creative workforce and attractive tax incentives are all essential components of prosperity, cities must now also provide their businesses with effective world-class financial institutions and mechanisms. Canada is no different in this regard, and stock exchange mergers, such as the one proposed between Montréal and Toronto, are also taking place across the United States and in Europe. In light of this trend, the Board of Trade believes that rather than isolate itself, the Montréal Exchange should be a part of this movement.

In fact, over the past few years, the Montréal Exchange has done the right thing by seeking to position itself in innovative niches, thus building strong credibility in North America, particularly in the field of derivatives. In addition to devising sophisticated technology tools that set it apart on the world stage, the Montréal Exchange also worked hard to position the Montréal Climate Exchange as one of the leading markets for trading environmental products.

While the Montréal Exchange has already forged important ties with other North American stock exchanges, namely, the Boston Options Exchange, the Chicago Climate Exchange and the Canadian Resource Exchange (CAREX), a strategic alliance with TSX Group could help the institution optimize its operations and allow it to further expand its client base around the world. This alliance will also clearly place the Montréal Exchange in a better position to forge ties with other international entities and explore new markets. Therefore, given the competitive forces at play on the international stock markets, we believe the TSX and Montréal Exchange merger is entirely justified and potentially advantageous.

Governance of the new TMX Group and its entities

That said, while the Board of Trade believes the Montréal Exchange should consolidate its position by pooling its strengths, as it is proposing to do with the TSX Group, we think it must also set conditions in this regard. More specifically, Montréal is bringing value and expertise to the table, and its ability to further develop this expertise should in no way be compromised. Some of the undertakings made by the future TMX Group towards the AMF go in this direction, and in our view, they should be highlighted, reinforced and fully respected.

Under this merger, the Montréal Exchange will remain the only derivatives exchange in Canada, and in this regard, the TSX Group will undertake towards the Autorité des marchés financiers (AMF) to take no measures that would jeopardize the Montréal Exchange's role as the "Canadian national exchange for all derivatives trading and related products, including being the sole operator for trading of carbon and other emission credits in Canada, without the prior approval of the AMF and comply with the general conditions that the AMF may set in the public interest as regards any changes to the Montréal Exchange's operations."

The Board of Trade sees in this initiative not only a guarantee that the Montréal Exchange will continue to pursue activities in which it has set itself apart and developed expertise but also an opportunity to continue investing in order to enhance its performance in this regard. In fact, based on our understanding of this undertaking, all derivatives activities will remain in Montréal, including the highly qualified jobs and executive functions. In our opinion, when monitoring this undertaking, the AMF should pay particular attention to the qualitative aspect of the jobs kept in Montréal. As for the new TMX Group, we expect it to make the necessary efforts not just to maintain these activities in Montréal but to ensure they grow.

The TSX Group will also acknowledge that "no person or company and no combination of persons or companies acting jointly or in concert shall beneficially own or exert control or direction over more than 10% of any class or series of voting shares of TSX without the prior approval of the AMF."

In this context, the Board of Trade believes the AMF – which will remain the lead regulator in respect of the operations of the Montréal Exchange and of the Canadian Derivatives Clearing Corporation (CDCC) – will play a decisive role in monitoring the Montréal Exchange's activities. As well, close attention should be paid to the mechanisms it has to ensure the new TMX Group respects its undertakings.

Moreover, in order to allow the Montréal Exchange to continue developing within the new organization, it has been agreed that 25% of the TMX Group's directors will be residents of Quebec and that the head office of the Montréal Exchange will remain in Montréal. The Board of Trade places great importance on these provisions and would like to see them reinforced. As such, we agree with the recommendation of the Caisse de dépôt et placement du Québec and would like the AMF to insist that the Board of Directors of the TSX Group (subsequently TMX) adopt an expertise and experience profile for its members. This profile should contain an acceptable definition of "Quebec resident" and set out the nature of the expertise and experience required for the candidates living in Quebec. The AMF's seal of approval should be required for the initial version as well as for any subsequent changes.

In our view, the Quebec directors of the future TMX Group must be particularly attuned to the realities of Quebec and Montréal, meaning that they should be actively involved here.

We think this is important not only to ensure that the Montréal Exchange leverages its recently acquired expertise but also that it continues to thrive in its home city.

Conclusion

The Montréal Exchange has developed extensive derivatives expertise and more recently, established itself on the North American emission trading market. It has joined forces with the Chicago Climate Exchange to create and develop this market. In this regard, it bears mentioning that many companies have been lobbying the federal government for regulations to allow emission trading. The know-how and expertise cultivated by the Montréal Exchange in this area are major assets for the city's development and in our view fundamental to ensuring the organization's survival.

The Montréal Exchange provides important services to Quebec businesses and investors, and the alliance between the Montréal and Toronto stock exchanges will allow the Montréal Exchange to grow and better position itself internationally. As part of the merger, the Montréal Exchange included provisions to ensure its niches of excellence would remain in Montréal. Whether this merger is a good move for Montréal will only become apparent down the road and will depend on the extent of the Montréal Exchange's growth.

Lastly, the AMF will continue to be the Montréal Exchange's lead regulator. In our view, the AMF has a strategic role to play in the future development of the Montréal Exchange and by extension, of Montréal and Quebec. It is a critically important role that calls for the utmost vigilance.