



Chambre de commerce  
du Montréal métropolitain  
Board of Trade of Metropolitan Montreal

# OBSERVATIONS

APPLICATION OF MAPLE GROUP ACQUISITION CORPORATION TO ACQUIRE  
TMX GROUP, ALPHA TRADING SYSTEMS LIMITED PARTNERSHIP, ALPHA  
TRADING SYSTEMS INC. AND CANADIAN DEPOSITORY FOR SECURITIES  
LIMITED

Submitted by  
Board of Trade of Metropolitan Montreal

November 24, 2011



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Anne-Marie Beaudoin  
Corporate Secretary  
Autorité des marchés financiers  
800 Square Victoria, 22<sup>nd</sup> Floor  
Tour de la Bourse  
Montréal, QC H4Z 1G3

**Re: Observations of the Board of Trade of Metropolitan Montreal as part of the public consultation on the application of Maple Group Acquisition Corporation to acquire TMX Group, Alpha Trading Systems Limited Partnership, Alpha Trading Systems Inc. and Canadian Depository for Securities Limited**

Madam:

On behalf of the Board of Trade of Metropolitan Montreal, I would like to explain the main points of the position we are defending today during the public consultation on the acquisition announced by Maple Group Acquisition Corporation of TMX Group and the other above-captioned companies (the "Maple transaction"). You will note that our observations reflect the concerns of the metropolitan business community and set out in the form of questions the elements that should be considered when evaluating the Maple transaction.

First, it bears mentioning that the Board of Trade is a non-profit economic development organization whose mission is to represent the interests of the metropolitan business community and to help it achieve its full potential in terms of innovation, productivity and competitiveness. With over 7,000 members, the Board of Trade is Quebec's leading private economic development organization. Although some of our members are directly involved in the Maple transaction, the Board of Trade considers itself independent of this deal.

Our interest in this transaction is driven by the importance of the financial industry to the Montréal economy and the strategic role of the Montréal Exchange and its derivatives expertise in the Finance Montréal cluster. In this regard, the Maple transaction is much more than a transfer of TMX Group's ownership; it could have major implications for Montréal's financial sector, economic development and wealth creation. In fact, in a consultation of our membership, many business leaders felt that a stock exchange is a vital institution.

**THE IMPORTANCE OF THE FINANCIAL INDUSTRY FOR QUEBEC AND MONTRÉAL**

The financial industry is extremely strategic for the development of Quebec and Montréal, accounting for nearly 300,000 jobs in the province, of which 150,000 are directly tied to financial services. With some 100,000 direct jobs and 3,000 companies, Montréal is the province's financial hub. And with an average growth rate (3.4% in 2007) that is faster than that of the services industry overall, Montréal has built an enviable reputation and recognized expertise in derivatives. The creation of the Finance Montréal cluster by 17 founding members in November 2010 is a solid testament not just to how important the industry is to the Quebec economy but to the willingness of its key actors and the

business community to work together to promote and build a powerful, wealth-creating financial sector capable of successfully competing all across North America.

## THE REPUTATION OF MONTRÉAL'S FINANCIAL INDUSTRY MUST REMAIN A PRIORITY

Although Montréal's financial industry is growing today, this was not the case at the end of the 1960s when a number of banks and other financial institutions moved their operations to Toronto, shrinking Montréal's reputation as Canada's financial hub. However, the many years of sustained effort, initiatives and actions of key industry stakeholders to capitalize on certain niches have revitalized the city's financial sector. This niche strategy is vital for Montréal.

The 2008 merger of the Montréal Exchange and TSX Group, and the creation of Finance Montréal, are a good example of this niche strategy. As a result of this merger, the Montréal Exchange has been able to leverage its expertise in derivatives and raise its profile. TMX Group's commitments concerning derivatives and to representing the city's interests within the Group have energized Montréal's financial sector. TMX data<sup>1</sup> show a sharp increase in transactions on the Montréal Exchange over the last decade: average daily volume is up from 51,000 contracts in 2001 to 250,000 this year, an increase of 400%. Annual volume is also up substantially since the merger, from 38 million to 52 million this year. Plus, the introduction of the SOLA trading platform by the Exchange is an example of an initiative that has been successful both at home and abroad as it is now one of the most commonly used platforms for derivatives trading in the world. Lastly, the merger has so far kept jobs in Montréal.

## THE BOARD OF TRADE ENDORSES THE MAPLE TRANSACTION

**Consequently, the Board of Trade is generally in favour of the Maple transaction.** The promoters of this transaction include companies and institutions that are beacons of the Quebec and Montréal financial systems, which guarantees that the interests of the Quebec and Montréal economies will be represented on Maple Group's board. However, because these promoters are in the minority, the Board of Trade is submitting a crucial request and formulating four questions concerning this transaction.

In essence, what we would like is to ensure that not only does our city's derivatives expertise not end up in Toronto, similar to what happened at the end of the 1960s, but that it is allowed to flourish and achieve its full potential. We do not want to see a replay of what happened when the Montréal and Toronto stock exchanges merged, resulting in Toronto becoming the *permanent* location for all equities trading. We believe that the Maple transaction should come with a guarantee that Maple Group's derivatives expertise will remain in Montréal *permanently*.

**The Board of Trade is making this request and enjoining the Autorité des marchés financiers to obtain an explicit and formal guarantee that Maple Group will keep its derivatives expertise in Montréal *permanently*.**

## FOUR QUESTIONS AND SUGGESTIONS FOR THE AMF IN RESPECT OF THE MAPLE TRANSACTION

Aside from this crucial request, the Board of Trade would like to raise four questions that should be asked when evaluating the Maple transaction and to which the AMF should obtain positive and satisfactory answers.

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1. <sup>1</sup> TMX Group, November 2011.



- 1. Does the agreement call for the implementation of an immediate, long-term strategy to make Montréal an international centre of excellence for derivatives, derivative-related activities and other related Group products, including fixed-income securities and over-the-counter derivatives?**

Montréal's reputation as the site for derivatives trading is vital for our economy. The 1999 agreement between Canada's stock exchanges called for centralizing derivatives trading at the Montréal Exchange and its subsidiary, the Canadian Derivatives Clearing Corporation. As a result, the Montréal Exchange became the sole derivatives exchange in Canada, also exerting leadership in IT and clearing solutions. Since the derivatives market is booming, the agreement should include an explicit and formal undertaking to develop and promote Montréal as an international centre of excellence for derivatives and related products, including fixed-income securities and over-the-counter products. We expect more specific undertaking and more concrete actions in this regard.

- 2. Aside from Maple's undertaking to make Montréal the head office and executive office of the Canadian Derivatives Clearing Corporation (CDCC), is there an undertaking to keep clearing and settlement activities in Montréal?**

With respect to CDCC, while Maple is agreeing that its head office, executive office and most senior officer responsible for its management and administration will be based in Montréal, we do not see any specific undertaking to keep clearing activities here. Clearing activities are becoming increasingly important and necessary for the financial health of our institutions. In light of the need to further regulate the financial system so as to avoid the excesses that led to the crisis in 2008, clearing activities will continue to grow, which will benefit our economy. We are therefore requesting that clearing and settlement operations be based in Montréal.

- 3. Does the Maple transaction provide fair representation for Quebec and Montréal within its governance bodies?**

In the Maple transaction, at least 25% of the board of directors will be composed of Quebec residents. Similar representation should be guaranteed on the CDCC and CDS Clearing boards. We also consider it appropriate for at least one Quebec resident to sit on each one of Maple's board committees. Since the derivatives market is essential for Montréal, we recommend the creation of a standing committee of the Maple board of directors with a mandate focusing on derivatives and related products.

- 4. If the Maple transaction goes through, will our financial market be able to remain competitive and offer diversified and competitive financing instruments to Montréal businesses?**

Because the company's business model will change from non-profit to for-profit, merging CDS Clearing with Maple could adversely affect clearing costs and competitiveness in terms of services offered in Canada, compared to those offered in the U.S. for the same securities. In order to ensure their development, it is vital that businesses of all sizes have access to the widest possible array of financing instruments. We must therefore be especially vigilant to ensure this acquisition does not harm small investors or SMEs. We must also make sure that transaction fees remain competitive and that investors receive better services. Although the Board of Trade is not in a position to evaluate

whether the Maple transaction will result in a quasi-monopoly, the possibility has been raised by many and merits special attention by regulators.

Ultimately, the Board of Trade believes that the Maple transaction will allow Montréal to remain a major financial centre and to exercise its singular and strategic derivatives expertise in Canada and beyond. That said, this transaction must include more explicit, formal undertakings aimed at strengthening Montréal's competitive advantages in derivatives and keeping our financial system competitive.

Please be assured of the Board of Trade's full cooperation in the economic development of Quebec and Montréal.

Sincerely,

Michel Leblanc  
President and CEO