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Mercredi 2 mars 2011

Select Committee on the proposed transaction of the TMX Group and the London Stock Exchange Group

Review of proposed stock exchange transaction

Comité spécial sur la transaction proposée entre le Groupe TMX et le London Stock Exchange Group

Examen de la transaction boursière proposée

Chair: Hon. Gerry Phillips
Clerk: Trevor Day

Président : L'hon. Gerry Phillips
Greffier : Trevor Day

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

SELECT COMMITTEE ON THE PROPOSED TRANSACTION OF THE TMX GROUP AND THE LONDON STOCK EXCHANGE GROUP

COMITÉ SPÉCIAL SUR LA TRANSACTION PROPOSÉE ENTRE LE GROUPE TMX ET LE LONDON STOCK EXCHANGE GROUP

Wednesday 2 March 2011

Mercredi 2 mars 2011

The committee met at 1204 in room 151.

APPOINTMENT OF SUBCOMMITTEE

The Chair (Hon. Gerry Phillips): Ladies and gentlemen, I think we'll begin now. Welcome, everybody.

Just in terms of housekeeping, there's a summary, colleagues, of the decisions made about the ordering of the committee. I think they're all in front of you. Each of the parties was involved and each has had a copy of them. I assume we'll proceed on implementing those decisions. Is everybody fine?

Mr. Gilles Bisson: I have a motion in regard to the subcommittee.

I move that a subcommittee on committee business be appointed to meet from time to time at the call of the Chair, or at the request of any member thereof, to consist of reports to the committee on the business of the committee;

That the presence of all members of the subcommittee is necessary to constitute a meeting; and

That the subcommittee be composed of the following members: Mr. Arthurs, Mr. Shurman and of course myself, being Mr. Bisson, and that substitutions be permitted on the subcommittee.

The Chair (Hon. Gerry Phillips): Any debate on that? Is everyone okay with that? Thank you.

Mr. Frank Klees: If I might, before we get on with the hearing, I noted that the Minister of Finance indicated in the Legislature yesterday that he has been receiving advice with regard to this proposed transaction from the Ontario Securities Commission. That being the case, I believe that this committee should benefit from that advice as well, and I would request that we make a formal request of the Ontario Securities Commission to appear before this committee.

The Chair (Hon. Gerry Phillips): We've got a motion for the Ontario Securities Commission to be invited to appear before us.

Mr. Gilles Bisson: We should subpoena them.

The Chair (Hon. Gerry Phillips): Why don't we start with the invitation?

Mr. Gilles Bisson: Mr. Chairman, for the record, you're going soft on us. I remember you more radical in the past.

The Chair (Hon. Gerry Phillips): Any discussion on that, then—

Mr. Frank Klees: I think everyone's agreed.

The Chair (Hon. Gerry Phillips): —to invite the securities commission to appear before us? Everyone okay with that? Thank you.

REVIEW OF PROPOSED STOCK EXCHANGE TRANSACTION

EXAMEN DE LA TRANSACTION BOURSIÈRE PROPOSÉE

TMX GROUP INC.

LONDON STOCK EXCHANGE GROUP PLC

The Chair (Hon. Gerry Phillips): Why don't we move now to our first presentation? Let me, on behalf of the committee, welcome you. It's an extremely important issue for us, as you know. What the process is here is, we've set aside two hours for this discussion. On behalf of the committee, I think what we'd like is for you to make whatever presentation you'd like to make and then we'll ask some questions. The way the committee works is, we'll work our way around the table with questions till 2 o'clock or, if we run out of questions, before 2 o'clock. We're very appreciative of you being here.

Perhaps for Hansard purposes—in other words, for the record—you might introduce yourselves just so we get that properly on the record, and then we'll ask you to begin your presentation. Thank you very much.

Mr. Thomas Kloet: Maybe I'll start with the introductions. My name is Thomas Kloet, and I'm the CEO of the TMX Group. I'll just ask my colleagues to introduce themselves.

Mr. Michael Ptasznik: My name is Michael Ptasznik, and I'm the CFO of the TMX Group.

Mr. Xavier Rolet: I am Xavier Rolet. I'm the chief executive officer of the London Stock Exchange Group.

Ms. Sharon Pel: I'm Sharon Pel, senior vice-president, legal and business affairs, of the TMX Group.

The Chair (Hon. Gerry Phillips): Great, and welcome. We're glad you're here.

Mr. Thomas Kloet: Mr. Chairman, members of the committee, thank you for the opportunity to appear here today. I am joined, as you just were noted, by Xavier Rolet, my counterpart at the London Stock Exchange Group; by Michael Ptasznik, chief financial officer of TMX Group and the global CFO designate of the proposed merged group; and by Sharon Pel, our group head of legal and business affairs.

TMX Group operates markets in several asset classes, including equities, which includes the TSX Venture Exchange as well as the Toronto Stock Exchange; derivatives through the Montréal Exchange; fixed income through Shorcan; and energy products through the Natural Gas Exchange or NGX. We also own and operate the Canadian Derivatives Clearing Corp., and we are the majority owner of the Boston Options Exchange, as well as other businesses across the financial services sector. We employ approximately 840 people across Canada, the United States and the United Kingdom.

Across Canada and increasingly in select international markets, we work in collaboration with multiple regulators and have demonstrated our ability to respect local jurisdictions while placing our businesses on strong paths to growth and success.

There has been a lot of debate since we announced our intention to join forces with the LSE Group to create an international leader in the exchange space. Many have shown their vocal support, both publicly and privately. However, there are clearly a number of questions that people want greater clarity on. We expect to address these questions today.

As I just noted, TMX Group is the holding company for some of Canada's most important exchanges. Therefore, it is only natural that you wish to better understand this proposed merger and how it will impact the role these exchanges play in our economy. We welcome the opportunity to dialogue with you today.

At the heart of our deliberations and during the entire course of our negotiations with the LSE Group, the benefits the merger would deliver to the Canadian economy have been a primary focus. In fact, our negotiations focused on the governance and regulatory model, as well as the undertakings to be made as part of our Investment Canada Act review, before any commercial discussion was had. Without these issues resolved, we felt there could be no transaction.

As a result, we believe that we have formed a partnership with the LSE Group that protects Canada's regulated exchanges for the future; positions them to make an even greater contribution to Toronto's, Ontario's and Canada's success; and enhances the role the TMX Group's exchanges play in the international arena.

Through foresight, sound regulation and careful decision-making, Canada's economy has emerged relatively strong from the global recession and credit crisis of the past two years. Our institutions weathered the storm, our financial sector outperformed most of the world and our public markets operated uninterrupted. Today, Toronto is seen as a stable and healthy financial centre in a world of uncertainty. Our brand recognition on the global stage has never been stronger, and our future is promising.

However, we do not operate in isolation from the events taking place around us in the world. Over the last several years, regulators in countries around the world have changed the very nature of stock exchanges. Our businesses are no longer the national monopolies they once were. For example, alternative trading systems have been granted licence to operate through lightly regulated platforms, and they do so without our public interest responsibilities.

As a result, while maintaining high-quality marketplaces, which are critical to our long-term success, we must also be focused on reducing costs for the benefit of our customers and on rapidly introducing new products and services that expand the markets in which we operate.

In addition, recent developments confirm that many exchanges around the world have elected to pool their ownership and strengthen their collective positioning. This will allow them to combine their resources to achieve the economies of scale required to make significant investments in technology and other areas needed to serve investors and traders at competitive prices, while extending their reach across national borders.

We are currently at a time when five exchange operator combinations are being proposed. This new wave started with the proposed merger of the Australian and Singapore exchange operators, signalling the formation of a new Asian player in the marketplace. A merged ASX-SGX will represent a strong presence in markets critical to Canada's future in energy, mining and resources.

In the past two weeks, almost simultaneous with our own announcement, Deutsche Börse and NYSE Euronext confirmed their desire to merge and form the world's largest exchange operator by both market capitalization and issuer capitalization. If you put all of that together with the proposed combinations of MICEX and RTS in Russia, BATS and Chi-X in Europe, and of course our own proposal, you have an active space.

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The consolidation is not limited simply to exchange operators. Just last Monday, the CEO of LCH.Clearnet said that consolidation is coming to clearing house operators as well.

In this highly active and rapidly changing environment, the questions we must now ask ourselves are: how do we best take advantage of Canada's newfound economic advantage to maximize our future potential; do we watch as the forces at work on the global stage enhance the competitiveness of other markets as operators use their new scale to achieve greater value and lower costs, or do we participate; and, if we were to participate, could we do so in a manner that protects the competitive advantage we have today and enhances it for the benefit of Canada's financial sector and economy?

Our response, carefully considered, and following complex negotiation, is the proposal before you for consideration today. We believe that the merger agreement we have reached with LSE Group accomplishes all of our goals, both as a business operating in a highly competitive marketplace and as stewards of Canada's public capital markets.

Before I walk you through the rationale for our merger proposal and the benefits it will bring to Canada, Ontario and Toronto, let me be clear on one extremely important point. What we are proposing is not in any way a merger of the exchanges we operate. For example, Toronto Stock Exchange will continue as a separately governed and Canadian-regulated exchange. We have guaranteed this through careful provisions in our merger agreement and the undertakings we will be making to our securities commissions and government regulators. However, by combining the companies that own and support the exchanges, we help to make each more powerful and able to compete around the world.

Let me describe in detail the proposal that is before us today, and make several points extremely clear. Under our proposal, our listed public companies and issuers will see no change to their status or their regulatory and reporting requirements. Therefore, no additional complications or costs to them will be forthcoming once this merger takes effect. In addition, the Toronto Stock Exchange will continue to be led by an executive based in Toronto. In fact, TSX will have a separate board from the holding company, at least 50% independent Canadian membership and local Canadian management.

The Ontario Securities Commission, as lead regulator, will maintain its current regulatory and oversight powers over the TSX and its issuers. Undertakings made to each of our Canadian regulators will be maintained, with new undertakings committed to under the provisions of our merger proposal. A final point worth stressing is that no foreign regulator will have jurisdiction over our Canadian-regulated exchanges or our issuers.

In short, Mr. Chairman, the Toronto Stock Exchange will operate, for all intents and purposes, as before. The same is true for each and every one of our regulated markets across the country. What will change, however, is the strength of our competitive position. Our ability to attract new issuers from around the world will be greatly enhanced though the benefit of the global scope and reach of LSE Group's international sales force. For example, where once we had to rely on our own Canadian team to market our exchanges to the world, we now have access to a much larger European and international network through which to market Canada as a business and financing destination, particularly in the resource sector.

In addition, the successful efforts made over the years to bring new foreign investors and participating organizations to Toronto and to Canadian markets will be accelerated as we tap into new European and international capital pools. Canadian companies listed on the TSX or the TSX Venture Exchange may expect, therefore, to see new financing opportunities, enriched access to capital and heightened interest from around the world. For example, if a mining company in northern Ontario lists on one of our Canadian exchanges, we expect to be able to offer them a more seamless access to investors from Europe and other markets at listing fees that are competitive.

Therefore, through a domestic listing on the TSX or TSX Venture Exchange, companies of all sizes from across Canada and throughout Ontario can expect to be able to achieve their financing goals more easily and more efficiently. And by pooling our resources with LSE Group and spreading our investment across a wider base, we will achieve extremely important economies of scale, in three important ways:

First, this combination will allow us to maintain a competitive price structure, benefiting all Canadians.

Second, rather than have to develop new products and services from scratch, we will have the opportunity to share capabilities across all of our exchanges and deploy offerings for the benefit of investors and traders rapidly and cost-effectively.

Third, pooling our technology investment and spreading it over a broader base allows us to upgrade and deploy lightning-fast and industry-leading technology while keeping costs down, enhancing our competitive position vis-à-vis other global exchange groups.

In short, we will be able to enhance the Canadian marketplace more rapidly and at a cost structure that makes sense to us and for all our participants.

Much of this rests on our ability to execute our plans successfully. However, we are confident in that ability. For the past two years, we have worked closely with LSE Group on a number of initiatives. For example, our derivatives trading technology now powers LSE Group's derivatives markets across Europe. We are forging this partnership with a company we know and trust and with whom we have a track record of success. And once we successfully start driving the benefits outlined a moment ago, our combination will have a rapid and positive impact on Canada, on Ontario and on Toronto's leadership on the global stage.

The Toronto Financial Services Alliance, on whose leadership council I proudly sit, has made it a clear priority to elevate Toronto's position in the international financial community. The proposal we have before you today will contribute directly to this effort. By enhancing market activity, we expect to strengthen Canada's visibility and its brand, positioning Toronto as a global financial centre and as a gateway to North America. The enhanced capital pool brought by new investors and the resulting higher trading activity will enhance the performance of our markets and improve the service we provide to the financial sector and to public Canadian companies.

Critically important, by joining forces with London, our leadership in the energy and mining sector will only improve and grow. This will give us the world's largest issuer base and the biggest capital formation venue of any exchange group. Therefore, our ability to help Canadian companies of all sizes raise capital and market their story will grow, directly contributing to this sector's continued success.

Let me now take a moment to address the small and mid-sized marketplace—by far the largest component of the Ontario economy and the biggest proportion of our equity market listings.

Already a recognized leader in public venture capital for early-stage organizations, our ability to serve and nurture growth for organizations in this sector will be enhanced, ensuring that we serve that largest and most important segment of the economy even more effectively than we do today. Small and growing enterprises will have a unique partnership with us.

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Small-cap companies, the lifeblood of the Canadian market, are where we build the future strength of our market and where we expect to see continued growth and success. In fact, our future ability to offer globally competitive fees, as we do today, will help us to encourage small-cap companies to list, raise funds and grow our markets. Further, we will work with these companies to facilitate their growth and expansion by bringing new investors to their doorstep. And our track record is, in my opinion, extremely solid. Five hundred companies that once started on the TSX Venture Exchange have, over the years, expanded and ultimately graduated as larger capitalized companies to the senior market, the Toronto Stock Exchange. Our success at accomplishing this is critical to our growth as a company, and it has wider benefits for the Canadian economy as well, in the form of reinvestment by the companies themselves.

That's how we grow our business and contribute to Canada. This is how we will succeed in the future. The benefits and opportunities that I just outlined will lead to what we all want: new growth for the financial sector and for Ontario and Toronto.

As trading volumes and liquidity rise, so will the need for Canadian market participating organizations, mainly Toronto-based, to grow in parallel.

As new listings come to TSX due to our enhanced financing capability and brand recognition, the lawyers, accountants, analysts, consultants, underwriters, geologists and other professionals who serve the market will experience enhanced opportunities. With more eyes on Toronto's markets, the opportunity to attract new players and new investors will also grow, creating new employment.

That is why we entered into this alliance with LSE Group. It strengthens our company's future competitiveness and contributes to the growth and competitiveness of the financial sector in which we operate. It does so without in any way diminishing local regulatory authority and, in our opinion, it opens a world of opportunity for Canadian public companies of all sizes and for the advisory and business community that supports them.

The words "listed on TSX" and "listed on TSX Venture Exchange" are spoken with pride by Canadian companies across Canada. These brands are here to stay. The agreement we are here to discuss maintains this pride while opening new horizons for growth. It is an arrangement that makes sense.

With your permission, Mr. Chairman, I'd like to ask Xavier to address this committee and share his thoughts with you as well.

Mr. Xavier Rolet: Thank you, Tom, and thank you, Mr. Chairman and members of the committee, for your time this afternoon.

The London Stock Exchange Group sits at the heart of the world's financial community—London. We, similar to the TMX Group, operate a broad range of equity, bond and derivative markets, including the London Stock Exchange, Borsa Italiana, MTS—Europe's leading fixed income market—and Turquoise, which offers pan-European and US lit and dark equity trading. In particular, we are very proud that for the past 15 years we have operated Europe's most successful small- and mid-cap equity market, as well as Europe's only two fixed-income electronic markets designed specifically for small and mid-sized enterprises and retail investors.

Our business is about working across national borders, respecting domestic regulation and focusing on the growth of each of our varied businesses. As I will explain in my remarks, we have proven expertise building businesses and contributing to their long-term success regardless of where they are based.

I could not agree more strongly with my friend Tom's earlier remarks. We have a clear responsibility to build a quality marketplace and to contribute to Canada's economic well-being, Ontario's reputation and Toronto's success as a world financial centre.

In fact, Canada's success, and the future growth and success of TMX Group, are critical to the long-term success of the new merged entity. It is in our collective best interest to see that all stakeholders affected by this merger benefit and that we all share in the rewards of this transaction.

As Tom and I negotiated this arrangement over the month, I think it's fair to say that our enthusiasm grew by the day. The opportunities for both our companies and the capital markets of Canada and also the UK and Italy became evident.

If the merger is approved, and once it is completed, the merged group will be a new global leader. Co-headquartered from Toronto, a new exchange operator will emerge that is:

—number one in the number of listings globally;

—number one globally in natural resources, mining, energy, clean tech and small and mid-size enterprise listings and financing;

—number one in international listings from emerging markets;

—number one in cash equities trading in Europe;

—number one in cash equities trading and derivatives trading and clearing in Canada; and

—number one in electronic trading of European government bonds.

That's quite an impressive company, with global franchises and brands recognized around the world for their quality and success. Combined with some of the best technology in the marketplace, the merged group is truly set up for further success. Together with TMX Group, we will create an international group with deep expertise, undeniable leadership in key sectors, as well as the ability to compete effectively and win on the global stage.

Finance has indeed become global. Exchanges are marketing today across national borders. Technology costs are growing, and the need for faster trading and higher capacity is becoming critical to performance. In this world of capital without borders, or at least with very few borders, where choice reigns and competition for funds and opportunity is heating up, TMX Group and London Stock Exchange Group are joining forces to establish the combined group as a meaningful global player with sound financial foundations.

As you may have noted, we have entered into this merger through a swap of shares, without any cash or debt considerations, therefore offering our two shareholder groups the opportunity to participate in the merged group's future growth. Our two companies, combined, will therefore be that much stronger financially. Cash-generative, profitable and with healthy balance sheets, we will have options open to us for future investment and growth that many others will not, due to their highly leveraged balanced sheets or situation.

Let me now take a moment to refer you again to the structure of the group we are proposing to create. By any standard against which it is measured, this merger is balanced and equal. A few quick facts: As already noted, Toronto, along with London, will be the co-headquarters for the new global group.

My partner, Tom, will serve as president, with all holding company business units reporting directly to him here in Toronto.

Canadian residents would hold seven seats on the board of the new global company, more than any other nationality on that decision-making body.

A Canadian, Wayne Fox, will chair the board.

Both the president and the global CFO, sitting next to Tom, Michael Ptasznik, will be based right here in Toronto.

In addition, Tom and I sought a broader structure for the overall group that took full advantage of our respective strengths across all markets. As part of that exercise, we allocated global centres of excellence and leadership to specific geographies.

Toronto will be the global co-headquarters not just in name but in fact. Leadership to businesses in London, Milan and across Canada will be provided from this city. Our global strategy to attract new listings and lead the competitive charge in the global industry will also be driven from Toronto.

Critical for Toronto, this city will become the global centre for all listings in all of the combined group's equity exchanges—together, the most international listings market in the world.

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This is a large mandate—a global mandate indeed. This means that the global effort to attract listings, oversee them, operate the various listings venues in the group and serve listed issuers will be centred here in Toronto and led by a Canadian resident who happens to be sitting right behind me.

We in turn will offer the global reach and business development arm of LSE Group to market Canada to the world and bring new international issuers to Canadian markets, adding to the 300-plus global listings already on TMX Group exchanges. We expect to leverage this partnership to attract more—not less—activity on Canadian markets, driving greater liquidity and creating a deeper and more international capital pool for Canadian public companies of all sizes. In addition, the opportunity to deliver products and services more rapidly to each other's markets will be fully realized. We see opportunities to cross-sell data services and introduce new index products, to develop new post-trade services and to share our collective knowledge in fixed income to build significant new growth businesses both in Europe and here in Canada.

I want to take a brief moment and talk about an issue that has been raised a few times. It has been suggested that future transactions are possible once we have completed this merger, especially given the activity taking place around us, as Tom noted in his earlier remarks. I have, for example, publicly stated that more exchange operators will come together in the coming months and years.

Regardless of the type of transaction that we, as a merged group, may entertain in the future, separate Canadian-based governance, management and regulatory oversight for Canadian exchanges will always remain in place. With strong exchanges today and into the future, global operations, and key leaders based right here in Toronto, any future transaction would serve to further expand Toronto's role in global financial services, not diminish it.

That's not only a personal assurance; it is written into our proposal. From day one, we have been committed to provide this in writing to Canadian regulatory and government authorities. In addition, there is and will be a strong level of Canadian leadership within the new group. A Canadian chairman, Canadian directors and a powerful contingent of Canadian-based executives and leaders will be at the forefront of any future discussion. But I believe we should be judged not just on our commitments and promises but on our past performance as well.

Let me talk a little about our track record at partnerships with other exchange groups. I believe that TMX Group and LSE Group have an exceptional track record of keeping our word and our promises and delivering on our commitments.

If you will allow me, Tom, I'll speak to your track record for a moment. Your success at managing exchanges and fostering growth speaks quite loudly. In

Canada, there is no doubt that the TSX Venture Exchange is multiple times stronger than it was when it joined the TMX family 10 years ago. On January 14 of this year, over 600 million shares traded on that market—17 times more than the average volume a decade ago. In 2010, TSX Venture Exchange companies raised approximately $10 billion on the market, up from just $1 billion in 2001.

As a merged group, we will work to expand and to build upon this success, for the benefit of Canadian early-stage companies for years to come. In fact, it is in part TMX Group's track record for building businesses and strengthening their performance that attracted us to them as partners.

Another example of TMX Group's clear track record is the combination with Montréal Exchange. This has led to enhanced competitiveness for that business, with record volumes in 2010. In fact, when we were seeking a technology partner to build the capabilities of our own derivatives market in Europe, Montréal Exchange was—and is today—where we turned. The derivatives technology deployed by MX is recognized around the world for its strength and leadership.

We too at LSE Group have a track record of success partnering across geographies. It is a track record that we stand by—in fact, that we are proud of—and one that we point to as evidence of our desire to grow together with the TMX Group.

As you know, we operate Borsa Italiana. Since we joined forces with them in 2007, Borsa Italiana has grown and flourished. From slightly over 35% of group revenues at the time of the combination, Borsa Italiana today represents just over 50% of group revenues, growing in importance in the years since we came together. And very important to note, this growth was achieved without once raising our fees for issuers in Italy, but rather by enhancing our activity and service levels. Our businesses are built by serving our customers and meeting their needs.

In addition, our track record with local Italian regulators speaks for itself. We have built that business, executed our ambitious plans and, I believe the record will show, enhanced the importance and global competitiveness of the Italian public capital marketplace.

Also, I believe it is important to point out that Italian managers now run businesses across the LSE Group, again demonstrating our desire to operate together, to build a strong global team and to promote and develop talent across all geographies.

I truly believe that the best predictor of future intentions is past performance. I trust that our track record provides additional confidence on this front. However, we recognize that you have questions and that our proposal has implications for Ontario and for Canada that governments need to consider.

If I may, Mr. Chairman, as I understand that a significant part of the population in the province and a number of constituencies express themselves in French, I would like your permission to say a few words.

The Chair (Hon. Gerry Phillips): Of course.

M. Xavier Rolet: J'aimerais—yes, sir?

M. Gilles Bisson: C'est correct. Je comprends très bien.

M. Xavier Rolet: Très bien. Est-ce que vous voulez que je fasse quelques mots en français?

M. Gilles Bisson: Parlez en français, oui. C'est juste eux autres qui ont besoin d'écouteurs. Il y a un système de traduction. Ils ont besoin de brancher le système de traduction.

Mr. Xavier Rolet: I will be very brief—just a couple of sentences.

M. Gilles Bisson: Il n'y a rien de trop bref en français, monsieur.

M. Xavier Rolet: Désolé pour ce contretemps, monsieur le Président.

The Chair (Hon. Gerry Phillips): I think we're ready.

M. Xavier Rolet: Je voudrais, sachant qu'une partie importante de la population de la province ainsi que de ses représentants politiques et régulateurs s'expriment en français, exprimer quelques mots et l'enthousiasme du groupe de la Bourse de Londres de travailler avec nos amis et collègues du Groupe TMX pour créer un nouveau concurrent global, un nouveau compétiteur global, qui sera, et je vous en donne mon assurance personnelle, source de croissance et de nouveaux emplois pour la province.

I will now revert to English.

This is where I stop, Mr. Chairman, and turn to you and the committee for your questions. Thank you very much for your attention.

The Chair (Hon. Gerry Phillips): Thank you very much. We appreciate the fine presentation.

What we'll now do is begin to ask questions. My suggestion to our committee is that each party have 10 minutes, and we'll work around that. I think we've got close to 80 minutes, so we can probably do at least two turns around, beginning with Mr. Shurman or Mr. Klees? Mr. Shurman.

Mr. Peter Shurman: Je veux vous remercier, monsieur Rolet, pour vos mots en français. Je ne vais pas continuer parce que la plupart de la salle est une audience « anglo ».

Thank you very much, Mr. Rolet. I wanted to return the favour.

I want to start with a general statement and a question. Obviously, all of you have come here with a great degree of pride in what you hope to accomplish and in what you, indeed, have accomplished in the past. I think it's fair to say on behalf of everybody that there's a great degree of pride on our part in our TSX, and there has been over the years. I speak not as a professional; I speak as a business person, as a member of provincial Parliament and, I might say, as an investor who's mostly invested in small- to medium-cap companies on the TSX. I worry about the TSX going forward. You have done a very adequate job at expressing what you think the upshot will be.

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So your view is extremely positive; mine is extremely neutral. I didn't come here with any preconceived notions; I came here to be convinced, and I believe that is probably true of all the people you see in the room.

The balance of control on the parent board is a particular focus, in reading my documentation, that I want you to expand upon. You've spent quite a bit of time talking about where control will rest very particularly for the exchanges that are resident in Canada, and indeed the control of the entire company being largely vested here. Having said that, your agreement looks at a board of 15 where seven positions are guaranteed to Canadians, or to people from this side, over the course of four years, and then that expires and the number drops to three. That suggests that there is some kind of change envisioned for some kind of reason, and so far we haven't had an adequate explanation of what that reason might be. I'd like to hear from any or all of you on it.

Mr. Xavier Rolet: Perhaps I could answer that question, Tom.

The first part of your description is totally accurate. The Canadian constituency on the board at the Holdco level, not the regulated exchange, will indeed be the largest constituency, with seven.

The second part of your description is actually a little different from our understanding. Post the four years, the agreement and arrangement we have is that we will guarantee ad infinitum a minimum number of Canadian directors, come what may, which is actually a protection that is available to no other national constituency—if we can describe them as that—within the board. So UK, Italian or other directors do not have any minimum undertaking in terms of number of geographical or national representation. So it is not that after four years it drops to three; it's that after four years there is a minimum of three that is guaranteed, come what may, whether or not there are ultimately other transactions, including acquisitions. So it is a special protection that was designed for the purpose of protecting not only the flavour but the importance and influence of Canadian directors on the board, which again is not available to anyone else.

Mr. Peter Shurman: You say that with a particular slant to it, which I don't disagree with. But I think your critics, looking at it from a different paradigm, might say that the ultimate control would rest with the directors who sit on that board who are not part of what could be as few as three—not necessarily as few as three, as you point out—and therefore the flavour, if you will, of the Toronto exchange could become that of a branch office as opposed to something that is an entity that stands alone and stands alone with pride on this side of the ocean. So address yourself, if you will, to that.

Mr. Thomas Kloet: Let me try to add something to Xavier's response, Mr. Shurman. That board would have to make that decision at that time. It doesn't automatically go to three, is the point I think we're trying to express—

Mr. Peter Shurman: I understand that.

Mr. Thomas Kloet: —and that board will have a plurality of Canadians on it at that time. That board will have to consider all the business mixes and the needs of the board. The board will have to look at the needs of the board at the time. But understand that there's not an automatic structure where it reverts to three, but rather that board, of which Canadians represent the plurality, would at that time have to make the kind of decision you're referring to.

Mr. Peter Shurman: I understand that.

Can I ask a simple question? Are there individual benefits that accrue to management and/or officers of any of the exchanges as an immediate and direct result of this merger?

Mr. Thomas Kloet: I can answer for the TMX Group. Our employment arrangements include a base salary, a short-term incentive plan, and a long-term incentive plan that is principally equity- and option-related. There has been no change to that plan as a result of this transaction, so, specific to the transaction, we don't have a piece of the transaction, if that's—

Mr. Peter Shurman: That was the nub of the question. So you will benefit from the success going forward, as you now do?

Mr. Thomas Kloet: We'll benefit from the success of the company going forward, just in the same manner and structure as we do today.

I'll let Mr. Rolet respond to the LSE.

Mr. Xavier Rolet: On our end, the situation is that there are no provisions, special arrangements or any special dispositions of any kind as regards management or employees that we be tied to these particular transactions, whether it is special guarantees, additional compensation arrangements, share options. This is something Tom and I discussed. We want to be bound by the commercial success of the resulting organization. And if, Mr. Shurman, I understand your question correctly, the earlier part of your question is that you expressed some concerns or fears that there might be dilution of—if we can describe it as the Canadian flavour or the Canadian influence. Do I understand correctly your fear?

Mr. Peter Shurman: Sure. I think that that's what most people I've spoken to fear—maybe that's too strong a word—or have a concern about.

Mr. Xavier Rolet: Concerns. Clearly, the best response we can do is—obviously there is governance. First of all, out of the top four jobs, three are here based in Toronto, including the chairman, which is a powerful position as regards the overall governance of the company.

But commercial success is, in the long run, what drives any organization, and with a significant representation amongst the senior management jobs, we are highly confident that both organizations will prosper together.

The Chair (Hon. Gerry Phillips): Mr. Klees.

I'm sorry—

Mr. Peter Shurman: It's two minutes, so I'll finish it off.

The last question—and these are general questions. I guess we'll drill down as we move around the room. I've been reading some criticism from certain quarters that talk about the access to capital very particularly for the small firms that either are on the exchanges or would become listed companies. You talk about it as grander access to capital, but critics talk about it as being tiny fish in a huge pond and getting lost. So there's a divergent view, and we'll hear over the course of the four days of hearings, I'm sure, from some of those people.

I'd like you to expand on your view of that, because clearly you think this is a grand benefit and other people think it's just the opposite.

Mr. Thomas Kloet: Well, Mr. Shurman, I'll start Central to clarifying that issue is to make sure and articulate the fact that we're not merging the exchanges themselves; that they stay as separate, distinct exchanges regulated by the existing regulatory structure that exists in Canada and whatever evolves from that, if you will. But in no way does this diminish the access to capital that our companies will get. In fact, we think it expands it.

Central to what we're trying to do is increase the view of our market internationally to extend, if you will, the number of participants in our markets internationally. That will have the result of making our markets deeper and more liquid, which will reduce the cost of raising capital for existing issuers who come back to the market and new issuers who go to the market. So we don't see how this would diminish the ability of companies to raise capital in any way.

Mr. Peter Shurman: Thank you.

The Chair (Hon. Gerry Phillips): Mr. Bisson?

Mr. Gilles Bisson: Thank you very much. I appreciate both of you coming here and presenting to us. I'm just going to get right to the point because I've got 10 minutes and I've got 10 minutes in the second round, so I don't want to make this any longer than it needs to be.

Let me just say this: We're very proud of the work that we've done in Canada and specifically in Ontario vis-à-vis the mining industry of creating what is the world leader when it comes to raising capital and listing companies in the world. Quite frankly, this is what this is all about, in my view.

The London Stock Exchange has a suborganization called AIM, the Alternative Investment Market. It, quite frankly, is not having the success that Toronto is having as far as the TSX. In fact, we saw, even before the crash that we saw a few years ago, what ended up becoming a big bailout on the part of a lot of governments around the world—prior to that, we started seeing problems within the AIM group in regard to the amount of activity you had. Investors were scared away. People, quite frankly, want to invest in Ontario. Why? Because the TSX has put together some really good rules about how you bring a prospectus forward and making sure that we pass a sniff test, and that the investor doesn't get hosed. We've learned why? Because of people like Viola MacMillan, because of things like Bre-X and others. We've developed a good system.

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So if I'm a little bit nationalistic in my view on this, understand where I come from. We are good at what we do, and there is a fear that over the longer run, based on one of the questions that my colleague asked, we could very well become second fiddle in our own backyard.

Let me ask you this question: Why does the TSX not take over London? What would your government say if all of a sudden Ontario said that we've got a proposed merger between two willing companies, to merge the London Stock Exchange into the TSX?

Mr. Xavier Rolet: Obviously, I can't speak officially for the British government, but I think the track record there over the last decade shows quite clearly that the British government has not—in fact, quite the opposite—put any objections or difficulties in the way of any international exchange company seeking to acquire us. In fact, it has happened five times.

The point you're making on AIM is a point that I'd like to also spend a bit of time on. First of all, this is a market that has been operating for 16 years now. We have built great pride. It's a very vibrant part of the ecosystem, of the London market base. We actually feel very passionate about AIM. I know that in tough times, in the middle of the credit crunch which happened in the UK and didn't happen here—and this is obviously a credit to the fiduciary, prudential and government authorities in Canada for managing through a financial crisis that deeply affected the United States and Europe—we had kind of a different macroenvironment, where liquidity was temporarily drained. If you look at the recovery events in the last 12 months, it's striking. It is actually structured quite differently. It's probably not, compared to TSX—the senior market is more comparable with our own senior market. It is for more mature companies than the Venture X environment, which is really a seed or start-up environment.

The analysis that Tom and I and our respective teams concurred upon over the months is that there's actually quite a bit of complementarity, if you look at the financing chain from the point of start-up and inception all the way up to the stage at which a company becomes a blue chip.

In fact, the performance in terms of the TSX—how many companies do you have on your main market coming from Venture X?

Mr. Thomas Kloet: Over 500.

Mr. Xavier Rolet: And we have the same track record, in terms of companies who joined and were worth just a few million pounds today being in the FTSE index.

Mr. Gilles Bisson: But my question to you was, if we were sitting in London now and you would be in the reverse position, what do you think the national government in England would say? I know what the public would say. That's the point I'm making.

All of us are trying to do what's right. There's some benefit to this, some would argue. I understand that. But at the end of the day, we've done some pretty good work here in Canada, and in Ontario specifically, to put together a system that works for raising capital when it comes to mining ventures across not only Canada, but across the world. It seems to me that what's happening here is that you're looking at Toronto and saying, "Listen, we need you in order to grow the way that we need to over the longer term."

I just ask you the question: What would your government say if we were to try to do it the other way?

Mr. Xavier Rolet: I think they would be very open to it, as per their past track record.

Mr. Gilles Bisson: So why don't we renegotiate the agreement? If you're willing, I'm prepared, and I'm sure my friend here is prepared.

Mr. Xavier Rolet: I think this transaction is about a merger of equals. That's the bottom line.

Mr. Gilles Bisson: Okay. On to the second question. I made my point.

In the agreement, you've got this four-year clause that my friend Mr. Shurman has raised. As I read it—and maybe I'm wrong—after four years, all of this is basically up to the board to decide what's going to happen. As I understand it, we're going to have seven of the 15, and you're correct in saying it's going to be the board that's going to decide any restructuring, if any; there may be, there may not be, there may be something in between. It'll be up to that board to decide. Yes, it's true that we have seven of the 15, but the point is, when I do the math, that's not a majority. So it possibly could happen that decisions could be made by that board that may not be to the liking of Ontario or Canada. Is that not correct?

Mr. Xavier Rolet: I think if you look at the operation of the exchanges themselves, none of the recognition orders, none of the regulatory protections go away. They are there for as long as these platforms are going to continue to operate under their licences. So, no, I think that fear or concern is actually not warranted by the facts. This is, as Tom pointed out, not a merger of the exchanges themselves; just a pooling of the ownership interests. To go back to your earlier question, it is based on a particular read at a point in time of the relative value of the two companies, as indicated by the market.

Mr. Gilles Bisson: Understand my skepticism and the skepticism of many, especially where I come from—northern Ontario. We've seen some major mining companies that were taken over by multinationals—not that we're opposed to multinationals doing business in Canada. Of course that should be allowed; that's a great thing. But it's not reciprocal.

We saw it in the case of Vale. They came in and bought out Inco. Canada doesn't have the same right, as a mining company, to go over there and take over somebody in South America. We didn't have any kind of a reciprocal agreement when it came to Vale coming in and buying out a Canadian corporation. Number one, that is a problem we should be dealing with, but that's aside.

The experience has been that when they first announced the merger—or the purchase or the takeover, I should say—of Inco by Vale, we were guaranteed that business would continue as usual and things would be great. I think if you go talk to the people in Sudbury today, you'll find out that it's quite the opposite. We just had a one-year strike where they took away the pension benefits of workers, and they took away their nickel bonus, something that was negotiated as a result of not taking wages in bad times.

There's some skepticism when we hear people come to us and say, "Don't worry; this is to your benefit." All I'm asking is: Why is it not more clearly done in the agreement that the interests of Ontario as well as the interests of England are protected in the agreement to make sure that we don't end up taking steps backwards in the way that we've seen with other takeovers?

Mr. Thomas Kloet: Maybe I can add something, if that's okay, Mr. Bisson. I think the key thing, as Xavier said, is that the operating companies, which are the exchanges themselves, will continue to have the kind of governance that is very important to protect the interests of Canada and its capital markets. We have structured an agreement that I think is materially different in that the key operating companies, the regulated entities, will have majority Canadian board membership, and that doesn't change after four years. I think that's the essential part that separates us from maybe some of the examples you're referring to.

Mr. Gilles Bisson: I hear you, but the holding company, at the end of the day, is going to make some pretty big decisions. The point that was made earlier is that in the agreement, as I read it—and correct me if I'm wrong—in four years' time, this board that we're now going to appoint, if this goes forward, could make a decision to diminish the position of Ontario and Canada in this new entity, Holdco.

I'm just saying: Why don't we spell out more clearly, if it's decided to go forward with this, what is to the interest of both Canada and the UK when it comes to what will take place in four years' time? Why is there a four-year sunset putting us in that position?

Mr. Thomas Kloet: It will certainly be in the interest of the holding company and its board that the Canadian business remain successful. This is a material part of the combination of this holding company.

Mr. Gilles Bisson: I very well understand that this is a good deal from the perspective of the LSE because they get access to your platform. I get that. My point is: Why are we not doing more to protect our interests as a nation and as a province when it comes to this particular agreement?

Mr. Thomas Kloet: I think we've structured an agreement that provides for that via the overall board structure and the protection of the regulated operating entities here in Canada.

Mr. Gilles Bisson: You said—

The Chair (Hon. Gerry Phillips): That's 10 minutes.

Mr. Gilles Bisson: Oh, I'm sorry. It moved so quickly, Chair.

The Chair (Hon. Gerry Phillips): We'll move on, and you can come back to that in the next round.

Mr. Arthurs.

Mr. Wayne Arthurs: First, I take an opportunity, certainly, to welcome our guests on behalf of the government caucus—both our guests from the TMX and our extended guests from the LSE. Thank you for being here and making the presentation this morning. Each of us, I'm sure, will have some critiquing questions as opposed to necessarily critical questions, but I think that's an important part of what we're doing here today. This is, in my view, a particular opportunity for Ontario, through this select committee, to have our voice on behalf of the roughly 13 million Ontarians. I know you're going to be very busy, and have been in the past number of weeks and will be, with a variety of stakeholders presenting and giving their input. This is, I think, unique in that way, because we do represent all of Ontario in that regard as elected officials, so thank you for being here.

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My first question—and I'm hoping, in the time we have in this round, that our members, if not all then most, will have questions of you as well during the hour or so we have left.

We are obviously just coming out of the worst economic climate we've seen in probably a couple of lifetimes, and we all keep our fingers crossed as we look at the markets and all those kinds of things. So I think the public remains wary of that economic climate and anything that may disrupt it. In your presentation, I see you specifically made reference to the strength of the regulatory regime and how Canada has weathered that storm.

What, in addition, would you say to Ontarians that would give them greater assurance that this proposed merger would in no way undermine the strength we have seen here in Canada and in fact would enhance the economic climate that Canadians and Ontarians find themselves in?

Mr. Thomas Kloet: Mr. Arthurs, I think the first thing I would tell Ontarians is that the regulatory structure of the exchanges that operate in Canada remains the same. We will continue to comply with both the letter and the spirit of the regulated exchange models that exist in this country.

With respect to issuers, we believe we will offer those issuers a significantly broader base from which to raise capital, thereby making it more efficient for them to add to the Ontario economy.

Mr. Xavier Rolet: If I may, Tom, in support of these comments: This is fundamentally a merger of equals. When a company takes over another one, then you do get into these situations where you put debt in a transaction or leverage it in one way or another. Through several months of conversations and discussions—some intense—we have always strived to achieve a balanced outcome, so that the two companies could come out with a very strong balance sheet and the ability to leverage each other's strengths. We have areas where we're a bit stronger and where we've innovated in some markets and areas where TMX has the lead. But overall, we're looking at balance: balance in terms of management jobs, balance in terms of governance—the chairman is a Canadian.

This is fundamentally two companies that have experience for over two years. This is not a project linked, necessarily, to a consolidation agenda. These are companies that for two years have come to work together, to get to know each other, have bought technology from each other, have looked at rolling out products in each other's area and have gradually come to the conclusion that through a merger they could leverage their strengths and leverage their performance.

As Tom earlier acknowledged and pointed out, we are now in an environment, both in Canada and London, that is fully competitive. If we are to continue to maintain very competitive pricing policies in terms of issuers, in terms of institutional clients, we need to be able to distribute more products. We need to be able to continue to lower our unit costs through basically a broader portfolio of products distributed more globally, because this is where our competition is.

In that respect, having built that balance into both the executive and the board, we feel very comfortable. If one looks at the breakdown of revenues, it's about a third, a third, a third among Italy, the UK and Canada. This is no longer a single national company—I'll grant you that, sir—but it is united in the desire to succeed commercially, and we cannot succeed if we do not serve the interests of our small- and mid-cap issuer clients and our large-cap issuer clients. This is the whole theme of competing for the large IPOs that bring so much downstream revenue to financial centres.

There is extremely keen competition—I know Tom feels it in his business, as we do—from Hong Kong, from what could now be a New York-Deutsche Börse, for those large international listings, be they mining, to your earlier point, sir, or be they financial services and media companies. This is another layer of competition where together we will have a strong position to compete. But this is a merger of equals, and these take time. They take a lot of work seeking to achieve the right balance.

Mr. Wayne Arthurs: To our friends at TMX: Have you considered other international mergers or acquisitions? Have they been offered up? You've been talking about the fact that this is an ever-changing marketplace right now. If you have, what happened there? Or if you haven't, what makes this particular merger particularly attractive?

I'm making a bit of an assumption, but have there been other opportunities you've had on the table that haven't worked out, and what makes this particular one an attractive arrangement?

Mr. Thomas Kloet: Mr. Arthurs, it's a very good question. As we look at our strategic plan, we've looked at all kinds of alternatives. We have an active strategic planning process at the TMX. We do recognize what's going on in the world around us. We do run into other exchanges as we go try to attract a listing—sometimes here in Canada, sometimes it might be in Beijing, sometimes it might be in Colombia, we run into our counterparts. We have considered other partnership arrangements, and we actually have some other corporate alliances and partnership arrangements.

What separated this one from other ones we could think about was when we thought that we could actually bring a deal forward that was a merger of equals, that did have shared governance, shared management responsibilities, a set of business plans that fit together exceptionally well without being overlapping, but exceptionally well, where there was a shared passion—and I would emphasize the word "passion"—for the small to medium-sized enterprise as it grows through its markets.

We do happen to run the two most successful small-cap markets in the world. It's not by accident. I think your comments, Mr. Bisson, on the regulatory structure are exactly right, but I'd also like to give my colleagues and my predecessors some credit for building a model that worked around that structure, because I think they went hand in hand.

The LSE Group has the same thing. You're right; it's a different model. It'll serve different constituents, but we have a passion for that together. What we found was, frankly, a partner with whom we had a track record of success, with whom we had built trust and strength together, with whom we had a shared vision and with whom we had a passion for the small to medium-sized enterprise.

As Xavier and I got to know each other, it became a very clear opportunity for us, and a great opportunity for Canada's capital markets and the issuers that depend upon us.

Mr. Wayne Arthurs: I'd like to turn my time to Mr. Zimmer—

The Chair (Hon. Gerry Phillips): That's about 10 minutes. Sorry about that, but we're going to move on. Mr. Klees.

Mr. Frank Klees: Thank you, gentlemen, for your very enthusiastic presentation. You've obviously become very good friends in a short period of time.

I'd like to ask about the dance that took place between the two. Mr. Kloet, you'll know, as everyone else does, that the London Stock Exchange lost about 50% of its market share over the last 10 years or so.

My question is just a straightforward one, and that is: Knowing the challenges that the LSE has had, why would you not have sought out a more robust partner?

Mr. Thomas Kloet: I think we have found a robust partner.

As it relates to your question, the LSE Group retains—and I'll need some help with this number, Xavier—somewhere around the mid-60s in terms of market share in a hypercompetitive market, just like we're in a hypercompetitive market here ourselves.

I think we've found a very robust partner. Earlier I articulated all the attributes that we found in that partner—I don't think I'll take your time by repeating them—but we found a partner that I thought was an excellent partner.

In fact, to give you a frame of reference since you referenced market share, in the US, the two principal exchanges there, NYSE and NASDAQ, are in the mid-20s, roughly, with respect to their market share. So I actually happen to think we're doing pretty well, frankly, on a relative basis in very competitive markets, and I think we have a shared passion for a particular segment of the market that's most important to Canada and Ontario's economy.

With that, I'll turn it over to Xavier.

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Mr. Xavier Rolet: If I may, Mr. Klees—

Mr. Frank Klees: The reason I posed that question is because you referred, of course, to your track record. When you look at a track record, you have to look at the performance of the company over a period of time. It's one thing for a company to gain market share; it's another thing for it to drastically lose market share. So it must mean that something is not right; someone isn't performing with excellence, and there are others who are gaining that market share. So when we're looking at a coming together, a merger of, as you say, equals, I guess if I were the TSX, I might resent that, because I think the TSX has actually had a better performance over the last number of years in terms of gaining of market share.

So, please, Mr. Rolet, go ahead.

Mr. Xavier Rolet: Thank you, Mr. Klees. I'd like to answer that point. Actually, we'll give an update in terms of our competitive position. Cash equities trading in the UK today represents about 14% of our overall revenues. When I joined the exchange 21 months ago, our market share was indeed coming under severe pressure. We compete with 59 multinational trading facilities and four regulated exchanges, so it is an acutely competitive environment. But it is right to point out that in prior years our technology, our cost base, had perhaps not kept up with competitive trends. What happened is actually not a trend that started 10 years ago—it started in 2007, with the introduction of the market in financial instruments directive, so-called MIFI, which threw the exchange industry into a highly competitive environment that perhaps at the time the LSE wasn't quite prepared for and didn't prepare itself for quite quickly enough.

I actually would like, with your permission, sir, to correct the record a little bit. As of Monday of this week, our market share in the UK equity order books stood at 72.1%. It did dip about—

Interjection.

Mr. Xavier Rolet: It's the UK equity order books; it's just UK equities.

In Italy, our market share has never dipped below 75%—low 70s. I have to go back and check the actual low point. But in the last six months, it has been operating comfortably at between 80% to 85%. Whilst it is true, as you pointed out, sir, that there has been, in the past, a period of competitive decline, that trend has now subsided and is being reversed. We can look at many other areas, but UK equities in particular is the one that the press and most investors are focused on. Just for the record, we feel that we are actually on an upswing at the moment, not a downswing.

Mr. Frank Klees: I wish you well. You also mentioned economies of scale as being one of the reasons that you've come together and that this transaction is before us. One of those economies of scale relates to technology. We understand that these trades now are done in nanoseconds and whoever has the quickest ability to grab that trade wins the day. Millennium is, I believe, LSE's basic platform; is that right?

Mr. Xavier Rolet: Yes.

Mr. Frank Klees: I'm assuming that one of the reasons for TMX looking at this is to benefit from that platform. I also understand that Millennium has had some serious problems. If I'm not mistaken, the Italian exchange was down—was it for three days?

Mr. Xavier Rolet: It doesn't operate on Millennium. It's an old technology.

Mr. Frank Klees: Okay, and how about LSE? It was down for a day?

Mr. Xavier Rolet: It was down for three hours, and I think I should say a word on that.

Mr. Frank Klees: Okay. I'm asking the question because it is a concern. If in fact technology-sharing is one of the advantages of this deal, then I have to question what the value is in a platform that is unreliable.

Mr. Xavier Rolet: Of course. I would also like, if I may, to set the record straight on that particular outage. The Italian platform operates on an old technology that has not migrated to Millennium yet and will, later on this year. The LSE Group in London, for six months now, has been successfully operating on the Millennium engine. And to your point, sir, about speed: The time it takes to match and confirm a trade 99.9% of the time is 2,500 times faster than the blink of an eyelid. We operate four such matching engines in London, powered by Millennium. So in the time that it takes us to bat a single eyelid, we will process, execute and confirm 10,000 transactions. This has been the fastest engine in the world for the last six months.

I would like reiterate here my deep personal regret for the interruption on Friday that happened for a small number of hours. It was not linked to the Millennium technology, the matching engine. It was linked to the great stress that a number of clients are experiencing, particularly those who rely on vendor-provided software, in terms of processing the number of transactions and the throughput operating at that speed.

This is something that, in fact, was not carried by the press, but if you look at about the same day, there was a major outage which lasted the whole day in Australia, powered by new American technology—same issue: data dissemination. The two largest MTFs operating in Europe, on the same day—one is US-owned, the other one European-owned—also had a major outage. The day before, another large Franco-American exchange had a significant issue handling its index-calculation engine.

We are operating at speeds that, unfortunately, even if our own matching engine is operating reliably, do create stress. Exchanges operate with thousands of members, and there are some that, in some cases, are relying on vendor software—as they do—that is not always able to handle the peaks of activity.

I would like to reiterate, obviously, we very much regret this incident, but the Millennium engine is very strong. It remains by far the fastest and most successful matching engine.

I will conclude on this point, if I may: There is another very strong contribution that Millennium has made to the LSE Group. It is in the area of costs. We very substantially reduced our costs. In the last 18 months, we've cut our fees three times, hence passing the benefit of a substantially lower operating basis to our customers.

As we did with Italy, we're not rolling out the Millennium platform as is. We worked with Italian customers, Italian developers, to bring the best of what Millennium has to offer. I think the plan here—and I'll let Tom comment on that—is not just to replace a platform with another; it's to look at the best features that each one of them has and to create a new generation of technology.

The London market is extremely fast and low-latency at the moment. I'm afraid there probably will be further stress to the system in the coming months from various exchange operators.

The Chair (Hon. Gerry Phillips): I know Mr. Klees has at least another question, but I was just saying to him that we will finish, and then we'll have another five minutes for each. You'll have a chance then, Mr. Klees. Is that okay with you?

Mr. Frank Klees: These people speak longer than politicians do.

Laughter.

Mr. Frank Klees: I'd like to ask them to get to the point.

The Chair (Hon. Gerry Phillips): I was going to say that we shouldn't insult our guests, but anyway. Mr. Bisson.

Mr. Gilles Bisson: Okay. Let me just say on the strength of the comment that you made, Monsieur Rolet, in regard to the strength of the Canadian economy and how it performed against everybody else: Yeah, it was partly because of our regulators and partly because of the system that we have here in Canada, including what we see on the TSX. But, my God, it's because of natural resources.

The natural resources that Canada has, both in mining and energy, are needed around the world. You just have to look at what is happening in China. You get off the plane, and 35 million people a year are moving into cities. That takes a lot of natural resources. You go to India, you go to Vietnam, you go to anywhere else, and you're seeing that there is a great appetite for our natural resources.

That is something that we have to be concerned about as Canadians because we are the stewards of these natural resources. As provinces, we're responsible for the regulation and the various happenings in the natural resource industry. I worry, as a provincial legislator, about putting ourselves in a position where we could end up—in the longer run, if we don't do this right—in the backseat in our own backyard, when it comes to how we're going to deal with natural resources in this country and in this province.

So, understand my reluctance. I understand the arguments on both sides. There are some who will argue that—and I understand the argument—a larger pool means that you can raise more money for your project in northern Ontario; I get that. But you don't throw the baby out with the bathwater. I guess that's the point that I'm trying to make.

I want to come back to what I asked you about earlier, and that is, there is this agreement that I've had a chance to read. I'm not a lawyer; I don't pretend to understand it in depth. But as I read it, in four years' time, the new board—this current board, if structured—will have the ability to make some decisions about how this whole organization is structured.

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I don't understand why we don't make safeguards within the agreement in order to protect the interests of Canada and Ontario when it comes to how our market operates—our own TSX; how Vancouver, Calgary etc. are run—when it comes to natural resources. Because in the end, the person who comes to the table with the money and who owns the company is going to get to decide what happens to the natural resources.

We are a global economy. Within our own system, we have seen what has happened in Ontario and Canada with large multinationals coming in and buying out Canadian corporations, and we see what that could lead to. So I ask again—and I guess my question is not to Monsieur Rolet, but to our friend from the TSX: Why don't we, in this agreement, try to clearly spell out the safeguards that are necessary to make sure that Ontario doesn't end up in a situation where we become the minority on the board—which we will be, because we're seven of 15; we might even be less; it could be as few as three—to protect our own interests? Because we may very well be finding ourselves in a situation where decisions are made by the board that may not necessarily be the ones that we want here in Ontario or Canada.

Mr. Thomas Kloet: The question about giving our natural resource companies access to equity capital I think is pretty well defined in the agreement, and I think that's the most fundamental thing for us to provide.

In terms of the board structure, I think that the board structure as it exists will protect the Canadian interest. We are a plurality. It's not—

Mr. Gilles Bisson: Am I misunderstanding? I just want to clearly understand. We're seven of 15, right?

Mr. Thomas Kloet: Right, and there are five UK residents and three Italian residents.

Mr. Gilles Bisson: But seven of 15.

Mr. Thomas Kloet: Correct. We are a plurality, and the only natural expectation is that that board is going to operate the company in a manner which enhances the value of all the businesses associated with the group.

Interestingly enough, the businesses of this group are evenly distributed between the UK, Italy and Canada. I think those productions are already there.

Mr. Gilles Bisson: I don't know how many times I'm going to ask the question. I guess I'm going to stop at one point, but it just seems to me that there's a lot at stake here for Canada and Ontario. There are those that argue—and I understand the argument. If I'm trying to raise money and I merge the LSM with the TSM, at the end of the day, I've got a larger pool of capital to get money from. I get that argument. I don't think anybody's got to explain what that means. But the issue is, how do we protect our interests over the longer term? Yes, we will still be regulated by the provincial regulators. One can get into an argument on whether we should fall under one system of regulation, but that's a whole other one; it's not for this committee to deal with. But the issue is, why don't we protect our interests more clearly within the agreement?

I fear that what I see inside this agreement, after four years, is, a board will make a decision about the continued growth of this new LSM-TSM organization; we will probably move to Hong Kong to try to take them over, or maybe they'll want to take us over. Who knows? The point is, we may end up being in a diluted position in this new corporation, where decisions will be made by the holding corp. that may not necessarily be to our advantage.

For example, there are probably 300,000 people in this city who are working in finance, the business that you derive under the TSX—everybody from the person who polishes the shoes to the person who sells stocks on the exchange. What guarantees do we have over the longer run that the expertise that we've built here in Ontario, especially around mining, doesn't end up in London, to some extent?

I'm just wondering: Why are we not more firmly guaranteeing our interests nationally within this agreement?

Mr. Thomas Kloet: I think we are guaranteeing our interests nationally with the regulatory structure and with the undertakings we're making. Furthermore, with respect to the 300,000 jobs that you referred to, we think we enhance the competitiveness of the people doing those jobs, Mr. Bisson. We think that by providing a mechanism where capital is raised more efficiently, these people will be more competitive, not less competitive.

Mr. Gilles Bisson: I don't argue with that argument; that's not my argument. I understand the argument that a bigger pool of money will create more activity and more access to capital. I get it.

Mr. Thomas Kloet: And more jobs in Toronto.

Mr. Gilles Bisson: Listen: I get it. That could happen. But also, the inverse is possible, where you end up in a situation, as far as the new company making decisions about how this new stock market is run, where some of the expertise that we've built up over the years here, specifically in mining, could end up migrating somewhere else.

I'm just wondering: If we're not worried about that, why the heck are we not putting it in the agreement?

Mr. Thomas Kloet: What I don't see is how that expertise leaves, given that we're still going to have a Toronto Stock Exchange, we're still going to have a TSX Venture Exchange—

Mr. Gilles Bisson: Well, we saw it with Vancouver.

Mr. Thomas Kloet: No, actually, what we saw with Vancouver is the business—it's a great example, and I'm glad I can put this in. When the former Vancouver Stock Exchange became part of the then TSX Group—that market has flourished as part of this. The business development in western Canada and across the country for small-cap companies has flourished by bringing the two companies together—sharing technology, sharing the ability for companies to graduate. That's exactly the model that I think is going to lead to such a success.

The answer to your question is in what will happen as a result of—

Mr. Gilles Bisson: I'd love to have another 10 minutes just to talk about Vancouver because, yes, there have been some positive developments as a result of the Vancouver-Calgary merger with us, but there has also been some difficulty. And I know from talking to my counterparts in British Columbia, not so much Alberta, that there—that was funny; you should understand what I was saying there—has been some difficulty.

Again, I've asked the question, I've heard your answer, and I'm not going to dwell on it, but I just make as a final statement, before I get to my next question, that it seems to me that if we're not worried, we should be putting it in the agreement. That's what troubles me about this, because we've seen what has happened with Rio Algom, where you had a Canadian company that was taken over by what would eventually become BHP. They shut down the darn thing here in Toronto. They stripped $500 million out of pension surpluses. They shut down the office here in Toronto, 300 people are gone, and we got rid of the mineral database that existed at Rio Algom. Why would we do that as a nation? But that's a side point.

My question is this—

The Chair (Hon. Gerry Phillips): Mr. Bisson, I'm going to have to interrupt you.

Mr. Gilles Bisson: Am I out of time?

The Chair (Hon. Gerry Phillips): We'll come back around. You'll have five more minutes—

Mr. Gilles Bisson: Oh, God, it went so fast.

The Chair (Hon. Gerry Phillips): —in a few minutes, so save that thought.

Mr. Zimmer?

Mr. David Zimmer: I have three questions. I hope I get to them all.

The first question—and I don't mean this to be in any way combative, but I just want to understand the context of a point here. The LSE chair made some comments the other day that were quoted in an article in the February 12 edition of the Montreal Gazette. The article quotes the LSE chair, Chris Gibson-Smith, as saying, "London's got the chief executive, board dominance; the whole company will be regulated by the FSA"—which I take it is the English regulatory agency. The quote goes on: "I don't think London has lost anything, but we've gained Canada."

Can you explain or tell me what was meant by the expression Mr. Gibson-Smith used—"board dominance"—and what you think he meant by "the whole company will be regulated by the FSA" and not losing anything but gaining Canada? It strikes me that, at least thematically, his comments are different than the comments that we're hearing today. I think that needs to be commented on.

Mr. Xavier Rolet: Thank you, sir. I think we could all point, whether it's in our political or business lives, at instances where the press doesn't quote correctly what has been said to them.

Mr. Frank Klees: No, that never happens. This is Canada.

Mr. Xavier Rolet: Well, I can tell you that in London it does happen.

Mr. Gilles Bisson: Must be the Mirror.

Mr. Xavier Rolet: It was the Telegraph in that particular instance.

That quote is inaccurate. Our chairman was completely misquoted. Whatever the intent of the journalist is not something I'm going to speculate on. But we did contact the editor of the newspaper, and we wrote a formal letter in response, correcting the inaccurate misquotes.

I would be delighted to—perhaps we don't have the time to read it today or to communicate to the committee a copy of that letter for the record. He corrects the points that are inaccurate, whether it's the FSA—the FSA will not regulate a Canadian capital market, just like the FSA would not expect the Ontario Securities Commission to regulate the LSE PLC. The FSA does not today regulate the Italian securities market.

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So that quote is incorrect, but unless there is time—I'm happy to read it if you want me to do so, Mr. Chair.

The Chair (Hon. Gerry Phillips): If it's short, you can read it in, certainly.

Mr. Gilles Bisson: Could you just table it, because I'm sure that—

Mr. Xavier Rolet: Oh, you want me to table it?

The Chair (Hon. Gerry Phillips): Why don't you read it in, if it's right there.

Mr. David Zimmer: Yes, I think it should be a part of Hansard.

Mr. Xavier Rolet: It's a short letter. I will leave you a copy.

This is a letter that was sent on February 14 to the editor of the Sunday Telegraph.

"Sir,

"James Quinn's article entitled 'Four Tribes Go to War' (Sunday Telegraph 13/01/11) misrepresents some key principals of the London Stock Exchange Group's proposed merger of equals with TMX, and takes my comments out of context. He quotes me as stating the 'entire company will be regulated by the FSA' whereas in fact all local entities will be regulated by their relevant regulators in their local markets. I was referring to London continuing to be regulated by the FSA and indeed Mr. Quinn states this earlier in his article. This balanced, local regulatory structure was outlined in our merger announcement, and is one of the cornerstones of the transaction.

"Whilst Xavier Rolet will be CEO of the combined business, the chairman, president and CFO, three of the top four positions, will be from TMX, and of the combined board, seven will come from Canada/TMX, five from the UK/LSE and three from Italy/Borsa Italiana—a balanced international board reflecting our merger of equals.

"Mr. Quinn also references the 'same principle' as Borsa Italiana, but here the context was the LSE's successful experience of integrating international businesses, applying a global geographically diversified matrix of responsibilities where the talent is the most impressive: Our proposed merger with TMX absolutely reflects this with group functions and business heads being located across the combined business, many of them being led from key financial and business centres in Canada—including group finance and primary markets in Toronto, derivatives in Montreal, energy in Calgary and SME and venture listings in Calgary and Vancouver. Importantly, Toronto and London will be the co-headquarters of the combined businesses.

"This deal is a highly compelling combination, bringing two equally strong, successful and complementary businesses together. The merger reflects the long-term friendship that exists between our two organisations, and the global exchange leader we are creating will be far greater than the sum of its parts: a merger of equals that will be good for Canada, good for the UK and good for Italy."

Signed by:

"Chris Gibson-Smith

"Chairman, London Stock Exchange Group."

The Chair (Hon. Gerry Phillips): Thank you very much.

Mr. David Zimmer: Thank you.

My second question: I'm referring to Mr. Kloet's remarks on page 12 of his remarks that you handed out here, the first full paragraph. It's talking about the advantages of this arrangement: "For example, if a mining company in northern Ontario lists on one of our Canadian exchanges, we expect to be able to offer them a more seamless access to investors from Europe and other markets at listing fees that are competitive."

So I think it would help a lot of us, both from the public and here at this table and, indeed, in this room, to understand how that would actually work in a concrete example. Can you walk me through an example of how this greater flow of European capital would flow in a seamless way to the northern Ontario company in a way that it's not now, if that's the case?

Mr. Thomas Kloet: Sure. Mr. Zimmer, right now we employ two people in Europe that work for the TMX Group. The London Stock Exchange Group has a significant sales and distribution force in Europe, obviously. Having a group that works together under common shareholdings to help promote our listed companies around the world will no doubt enhance the number of investors that look at our marketplace.

In addition to that, by sharing technology and thereby having common technology across a wider array of investors around the world, that increases our distribution significantly as well. As a result, more investors will participate in our marketplace, thereby reducing the cost for that northern Ontario miner to list his company or to try to access new capital when he goes back into the market for a secondary listing or a supplementary offer.

Mr. David Zimmer: At page 16 you make a similar comment about new arrangements to encourage small-cap companies. I gather it's the same strategic tactic here?

Mr. Thomas Kloet: Sure. Yes, sir.

Mr. David Zimmer: And my last question: on page 24 of your remarks, the top paragraph: "In addition, Tom and I sought a broader structure for the overall group that took full advantage of our respective strengths across all markets."

Can you delineate for me what you perceive to be your respective strengths, and then, not referred to in your quote, also delineate what you perceive to be your respective weaknesses and how getting together would strengthen the strengths and ameliorate the weaknesses?

Mr. Thomas Kloet: Great question. I'll let Mr. Rolet start, and then I'll add, if that's okay, Mr. Zimmer.

The Chair (Hon. Gerry Phillips): He's got about two minutes to do that.

Mr. Xavier Rolet: I'll make a strenuous effort to be more concise, Mr. Chairman; and apologies earlier for not answering Mr. Klees's question in a fashion that he not only expected but deserved.

There are a number of areas—for example, fixed income—where we have developed unique capabilities. We operate certainly the only two European ones, but one of the very, very few electronic corporate bond markets designed for SMEs and enabling retail investors to acquire corporate fixed income in an electronic, transparent and efficient manner.

We also operate the largest, by far, electronic bond market for European government bonds. This is an expertise that I think, Tom and I—in fact, before the time where we even knew each other, Tom had been looking at, even on days when he was in Asia, where we see significant opportunity here in the North American market.

We have a complementary set of skills, for example, in clearing. We operate the third-largest clearing and settlement entity in the Euro zone. We think we could give clearing choice to large investors who seek to invest either in Europe or in Canada within the trading continuum.

There are also some broad strengths that we have, to Mr. Klees's earlier comments. Millennium operates very large international distribution capabilities where we would seek, for example, to distribute internationally, particularly in the all-important emerging market world, the derivatives and technology expertise developed here in Canada.

There are areas—for example, indices. We own 50% of a company called FTSE. That's 120 indices around the world, 70% of the assets benchmarked in the all-important Chinese market. We can develop and distribute these indices in North America via the assets and exchanges operated by TMX.

Those are some of the strengths, but—

The Chair (Hon. Gerry Phillips): I may have to—

Mr. David Zimmer: I just wanted to clarify. Can I come back in the next round of questions?

The Chair (Hon. Gerry Phillips): Each of you will have another five minutes. We do have another five minutes for each caucus—

Mr. Frank Klees: After this one.

The Chair (Hon. Gerry Phillips): Mr. Klees?

Mr. Frank Klees: Thank you.

Very succinctly, Mr. Rolet. There's a term called the "light touch" that I'm sure you're familiar with that is applied to the regulatory environment under which the LSE functions, compared to the regulatory environment in the US and certainly here in Canada.

While we talk about being able to preserve, if I can call it, our regulatory sovereignty, with what's being proposed here I think there may well be a concern, and I ask you if it's a legitimate one, that if, in fact, a potential issuer has a choice of being listed in a jurisdiction where the regulatory requirements are not as strict, they would migrate there. So my question to you is: While we may be creating a larger market, are we potentially going to see listings gravitate to the LSE as opposed to the TSX?

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Mr. Xavier Rolet: That's a very good question, sir. What I would say is, if that were the case, many listings that come to Canada would go to London, if this were the current situation that we are experiencing. With respect, I would disagree with you.

We operate nothing like a light touch regime. It's not only the central banks that regulate our clearing businesses—the UK listing authorities, the European securities and markets authorities. The regulatory environment that we operate under is very strict and very heavy, but again, if that were the case, many of these companies would not list in Toronto if there was a significant gap in regulatory performance.

Mr. Frank Klees: The term "light touch" isn't mine. It's what the industry is using; right?

Mr. Xavier Rolet: I understand, yes. I can't subscribe to that description is my short answer.

Mr. Frank Klees: I have one last question and then my colleague would like to ask his.

Post should this merger of these holding companies take place, in what jurisdiction will the revenues be reported?

Mr. Xavier Rolet: Is this a fiscal—

Mr. Frank Klees: This is not a trick question.

Mr. Xavier Rolet: No, I understand. I didn't take any of your questions—

Mr. Frank Klees: We now have a new entity and it has to report revenues in a jurisdiction where it's going to be taxed and where there will be accountability. We now have two companies, each reporting in their own jurisdiction. In what jurisdiction will this newly created company be reporting its revenues?

Interjection.

Mr. Xavier Rolet: No, I was not going to say that, sir, but thanks for supporting me on this.

In fact, there are going to be in excess of 20 regulated entities within the group and they will recognize revenue where it is realized, i.e., in the—

Mr. Frank Klees: Excuse me. I'm talking about the holding company. There are now two separate companies. There is the TMX Group and there is your group in London. I'm assuming that at the end of a year there is reporting that takes place, as any other corporation has to report its earnings, and is then subject to the appropriate taxation within that jurisdiction.

You will form one corporate entity, one public company. In what jurisdiction will that one public company—that is, the holding company, the new one—report its revenue?

Mr. Xavier Rolet: This is a consolidation of ownership. The revenues will be taxed where they are—

Mr. Frank Klees: In what jurisdiction?

Mr. Xavier Rolet: —-situated, i.e., in the regulatory jurisdiction. Then at the Holdco level—but the revenues today, for example—we already operate in that environment. We pay taxes in Italy; then we pay taxes also in the UK. At the Holdco it's just basically an accounting reporting. The revenues continue to be taxed where they're realized in the jurisdiction where they're realized. The same will apply to Canada—in fact, not only to Ontario but to various other provinces.

Mr. Frank Klees: So the exchanges that were within the TMX Group, all of that will be reported here?

Mr. Xavier Rolet: Yes.

Mr. Thomas Kloet: The Toronto Stock Exchange will still have a financial statement where revenues are earned. Toronto Stock Exchange Inc.—TSX Inc. I think is the legal entity's name—will pay taxes here. There will be a holding company; it'll be dual-listed on both the Toronto Stock Exchange and the LSE.

Mr. Frank Klees: Okay. Mr. Shurman has one last question.

Mr. Peter Shurman: Very quickly. If I'm correct, the TMX started trading publicly in 2002, Mr. Kloet. What was the share price at issue, and what is the approximate current share price?

Mr. Thomas Kloet: I know the approximate current share price, Mr. Shurman, but I wasn't here at that time so I'm going to ask Mr. Ptasznik for help with that. The current one is around $40 a share.

Mr. Michael Ptasznik: Nine dollars.

Mr. Peter Shurman: At issue?

Mr. Michael Ptasznik: Yes.

Mr. Peter Shurman: Sorry?

Mr. Michael Ptasznik: It was $9 at issue.

Mr. Peter Shurman: And what is the current LSE price?

Mr. Xavier Rolet: Nine pounds approximately.

Mr. Peter Shurman: And what do you expect the price to be at merge? You've done projections, Mr. Kloet.

My next question, part of that, was going to be: What do you think it'll be in a year and when should I buy?

Mr. Thomas Kloet: Mr. Shurman, because I run a stock exchange, obviously I have to be fairly careful with my answer, although I should be anyway, as a CEO of a listed company.

We think we're creating a company here that's going to bring great value to the issuers of Ontario and the investors in Ontario, and we think it's interesting for our shareholders as well.

Mr. Peter Shurman: But you're not going to put numbers on it.

Mr. Thomas Kloet: I am not, sir.

Mr. Peter Shurman: Thank you.

The Chair (Hon. Gerry Phillips): Mr. Bisson.

Mr. Gilles Bisson: You've already touched on this, but I just want to raise it again because it has been raised by a number of people I've met with who are in the mining business, who deal with you as far as listing their companies. That is the whole issue of fees—listing fees and annual fees—that they have to pay. I heard you basically say, "No, they're not going to go up." I believe that's what you said; I'm trying to put it on the record.

Mr. Thomas Kloet: Well, what—

Mr. Gilles Bisson: They may go up as a result of natural market stuff, but let me just say what the fear is. The fear is that you form a larger entity and this larger entity then has a greater degree of market share and is in a position to drive up listing fees and annual fees that you pay to your companies that are listed. Comments on that?

Mr. Xavier Rolet: If I may, Mr. Bisson, this market is indeed extremely competitive for SMEs, where we are ourselves open to competition in Europe, as it is over here. Today, to put things in perspective, listing fees in the SME sector represent less than 5%, and that applies to both the TMX business, the Venture X business and to the aim of the London Stock Exchange root business. They represent less than 5%.

Mr. Gilles Bisson: Can I just ask a quick question of TSX? What percentage of your revenue is derived from listing fees and annual fees, compared to other sources of revenue?

Mr. Michael Ptasznik: It's approximately 28% of the revenue.

Mr. Gilles Bisson: Okay, carry on. Thank you.

Mr. Xavier Rolet: For us, the listing fees overall represent less than 10% of our revenues and the listing fees for SMEs represent less than 2% of our revenues.

Mr. Gilles Bisson: And about 30% for TSX. So the fear is—yes, go ahead.

Mr. Thomas Kloet: Can I just add one thing, Mr. Bisson? I think what's important is to know, to re-emphasize the obvious point, that the listing fee is certainly far less than 10% of the cost of a going-public transaction to begin with. And our current listing fees, across the institution—the sustaining fees—are roughly somewhere around $20,000 a year, or $18,000 a year.

Mr. Gilles Bisson: The fear is, though, that this is primarily a mining exchange. A large share of your business in Toronto has to do with mining, and the fear is that if we end up merging London, which is the next-largest mining exchange, with the TSX—there are not a lot of places. They're not going to go to New York to list their stocks, where listing fees may be different. There's a fear that they're in a closed market, and that in fact this new holding corp. may decide, "Do you know what? Now that we've got you all inside one box, we're going to charge you more money, because we can." Your response?

Mr. Thomas Kloet: First, we don't charge different fees by industry sector. That's not a model that—

Mr. Gilles Bisson: And there's no plan to do so?

Mr. Thomas Kloet: We have no plan to do so currently.

Mr. Gilles Bisson: Okay. This is for the record when we go to court.

Mr. Thomas Kloet: We have no plan to do so.

Mr. Gilles Bisson: I'm just teasing. The Hansard will be used—

Mr. Thomas Kloet: Secondly, importantly, there are other competitors for them. If you look at the Australian Stock Exchange combining with Singapore—

Mr. Gilles Bisson: But it's small compared to Toronto. Australia's small compared to Toronto.

Mr. Thomas Kloet: They have even identified that as an area that their merged entity expects to try to compete in. There are other listing venues here in Canada as well.

Mr. Gilles Bisson: How do you get around—and I've asked this question to—I'm sorry, I'm seated in the back and I forget the name—the 10% rule that now exists vis-à-vis that no one shareholder of the holding company that owns the TSX can own more than 10% of the company? You could end up in a situation where that is no longer the case, with this new merger. How do you get around that? I've been told the answer, but for the record—

Mr. Thomas Kloet: One of the key things we have is a change-of-control provision, that if there is a change of control at the Holdco level, we'll come back and require Canadian regulatory approval.

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Mr. Gilles Bisson: How much time do I have?

The Chair (Hon. Gerry Phillips): Just a little less than a minute.

Mr. Gilles Bisson: Listen, in the less than a minute, because it's our last chance to have a chat—just understand where I'm coming from. If I'm being a bit combative, it's for a reason; I come from northern Ontario. We've learned that if you don't put your elbows up in a hockey game, you ain't going to do very well when it comes to the overall score.

There is a real fear—I'm going to be blunt with you. There are people in the mining industry up north who like this. I understand it; I get it. But there are others who say, "Yes, but who knows what's going to happen four years down the road etc.?"

My only closing comment to you is that if we're so confident that this deal is going to be a win-win for London and a win-win for Toronto, why, then, don't we as Ontarians, as Canadians, put the conditions in the agreement that ensure that we are protected over the longer term? It is the view of many in the mining sector that I have talked to, who are here on Bay Street or reside in northern Ontario, that those conditions have not been put in. I think there would be a greater degree of certainty if those were in. If they're not in, I think you're going to have some problems when it comes to the public accepting this and—who knows?—at the end of the day, the government and the rest of this assembly.

The Chair (Hon. Gerry Phillips): We'll move on. Mr. Arthurs.

Mr. Wayne Arthurs: Let's skip forward to four or five years from now, as the case might be. As globalization to some extent continues, you're looking at other opportunities then. There's a possibility of a future player, a further merge, a further partner. Does this in any way blow up the Canadian position, the role of a Toronto or a Montreal? Does it blow up the board structure to where everything is back on the table again?

Secondly, would you be back to doing the same process at that time as you're into now?

Mr. Thomas Kloet: In the structure of our agreement, if there's a change of control in that transaction, it would require the regulatory approval of the Ontario Securities Commission.

Mr. Wayne Arthurs: Okay. And, as I say, five years out—

Mr. Thomas Kloet: That doesn't change.

Mr. Wayne Arthurs: It would all be on the table for consideration at that point in time?

Mr. Thomas Kloet: Yes. If there's a change in control, that stays in there.

Mr. Wayne Arthurs: Mr. Zimmer, I believe, had a question.

The Chair (Hon. Gerry Phillips): Mr. Zimmer.

Mr. David Zimmer: Yes. My last question was addressing the strengths, and you talked about the strengths. But could you each give me two weaknesses that your respective exchanges will be—

Mr. Thomas Kloet: Sure. How this helps?

Mr. David Zimmer: Yes.

Mr. Thomas Kloet: Mr. Zimmer, it's a great question. Unfortunately, I could probably take all afternoon, so I'll try to be fast.

Mr. David Zimmer: Just highlight it.

Mr. Thomas Kloet: The first one is, we would very much like to have access to a broad array of indices. The FTSE index provider is the leading non-US-dollar index provider in the world. It gives us a wide array of products to develop right here in Canada, for this hemisphere, that will add investor interest to these markets and will improve the liquidity in them. It's an essential thing. I'm very excited about that.

Secondly, we are involved, as I assume this body knows—certainly, the Ontario government knows—in the development of multilateral clearing for over-the-counter-executed derivatives.

Xavier's organization and ours both run clearing houses that are very well respected. We create the opportunity to provide—I think to enhance—our proposal for a made-in-Canada solution to service our constituency with over-the-counter clearing. It's a very important thing for Canada. It's a very important thing to resolve, a fundamental issue associated with the financial crisis of 2008, and we're very excited to work on that together.

Those are two fundamental things.

Mr. David Zimmer: Mr. Rolet: two weaknesses that will be strengthened for London?

Mr. Xavier Rolet: Our first weakness is that our derivatives business, although the third-largest in Europe, is a very distant third. It's a fledgling business. This is a result of history. This is a business that we feel could be grown globally much faster by pooling together our resources. It's also the reason why derivatives are going to be headquartered out of Canada, as I referred to earlier. We look at competencies as a place to assign executive responsibility.

The second point is, whilst the London Stock Exchange Group today, as it is, is a great international brand, it is clear that in terms of distribution capabilities, having taken substantial costs—modernizing our technology, to Mr. Klees's earlier question—out of the system, in order to be competitive, we now need to lower our unit costs and develop our international distribution capabilities as a group, which is what many North American exchanges have done and which we believe is going to be the shape of future things.

The Chair (Hon. Gerry Phillips): We're now finished our—

Mr. Frank Klees: There's still time on the clock. I would have one last question, if I could.

Mr. Gilles Bisson: I would too.

Mr. Frank Klees: Let's each take one minute. Don't shortchange us.

The Chair (Hon. Gerry Phillips): Go ahead. One minute.

Mr. Frank Klees: I would just like to ask this question: Should this proposed transaction not be approved, what are the implications to both companies?

Mr. Thomas Kloet: I can answer it for the TMX. First, let me be clear: The Toronto Stock Exchange and our other markets are here to stay, and our markets will open as planned. I believe we've tabled a very attractive proposal for capital-raising for the Ontario economy and the Canadian economy, one that has significant benefits to our capital markets. I think we would miss an opportunity to take advantage of these benefits and maximize the potential for our financial sector. But we would open and operate.

The Chair (Hon. Gerry Phillips): Mr. Bisson.

Mr. Gilles Bisson: To the TSX: Why didn't you buy them out?

Mr. Thomas Kloet: First, this isn't a buyout by any party. It is a merger of equals. We believe the combination reflects the market capitalization of our respective companies. It reflects the relative earnings of our respective companies and their size. It is, as a result, a merger of equals.

The Chair (Hon. Gerry Phillips): Ms. Albanese?

Mrs. Laura Albanese: Given the particulars that we've heard so far, I just wanted to know if you're going to run distinctive platforms or a merger of the platforms.

Mr. Thomas Kloet: There will be distinctive platforms. We certainly aim, over time, to combine the technology offerings that we have. In fact, the LSE already operates our platform for derivatives, although they're separate instances because different marketplaces will have different rules. That will be the same case here.

We intend to continue to operate the Canadian capital markets under the Canadian regulatory rules, and as a result, we will have a distinct instance of the trade-matching software. But it is certainly the case where we want to get the economies of scale developing that software together.

I hope that answers your question.

The specific matching engine will first reside here in Canada, as will the backup centre. We're committing to keep the two data centres here.

So the instances will stay here, and they will be separate instances from that matching engine that's in Italy or the UK or any other markets we operate.

By the way, LSE has done the same thing.

The Chair (Hon. Gerry Phillips): I think the big hand has gone past 2.

Mr. Frank Klees: Mr. Rolet did not have an opportunity to answer the last question as to the implication to his company if this didn't go through. I wonder if I could have unanimous consent to just give him one minute or even 30 seconds to answer that question.

The Chair (Hon. Gerry Phillips): Are you okay with that? Okay. Go right ahead.

Mr. Xavier Rolet: We equally feel very confident about our business plan. Share price in the last 12 to 18 months reflects that. It's had great performance, and we see very substantial growth ahead. I think, as in the case of TMX, it would be a significant missed opportunity for both our houses and both our countries. We strongly believe that this is a good deal for Canada, a good deal for Ontario, but also a good deal for the UK and for Italy.

The Chair (Hon. Gerry Phillips): On behalf of the committee, thank you very much. It was a very informative and very detailed presentation. There may be some questions as the committee goes through its work, and we'll count on you to provide any information we need. Thank you for very much for being here today. We appreciate it and look forward to our hearings.

Mr. Thomas Kloet: Thank you.

Mr. David Zimmer: While the other group is setting up, is it appropriate for a two- or three-minute washroom pause?

1400

The Chair (Hon. Gerry Phillips): Let's let this group leave. We will take a three-minute break. I think Mr. Klees wanted—

Mr. Frank Klees: Yes, if I could, on a matter of business, just to clarify, the invitation that we—

The Chair (Hon. Gerry Phillips): This is not—you can leave. You're welcome to stay, but—

Interjection: Thank you very much.

Mr. Frank Klees: The invitation that we've agreed to extend to the OSC: I would like to clarify that we extend to them the invitation to meet with us for one hour rather than simply a 20-minute period of time so that we can have adequate time to question them.

Mr. Wayne Arthurs: Before we—I'd rather the subcommittee meet briefly on that, simply because of the constraints on our time. We don't know the number of presenters that we're likely to have, given the nature of the motion that put the select committee together.

Mr. Gilles Bisson: We'll deal with it in subcommittee.

Mr. Wayne Arthurs: And would agree to the OSC. I think we need to talk about the timing, not knowing how many other presenters may want to be before us.

Mr. Frank Klees: We've cancelled two sessions already for lack of interest.

The Chair (Hon. Gerry Phillips): Mr. Bisson?

Mr. Gilles Bisson: Just on breaking for Mr. Zimmer's request, I don't think we can because at 3 o'clock the House is coming back, and quite frankly we're going to be giving Wellington Financial—bring them up. Frank, where are you?

KWG RESOURCES INC.

The Chair (Hon. Gerry Phillips): We're going to have to call the next group. If anybody has to—we do have to finish at three.

The next group, KWG Resources. Thank you very much. We appreciate you being here. For Hansard, we would appreciate if you could, in just a moment, introduce yourself. There is, as you know, 20 minutes total time. The expectation is that your presentation is no more than 15 minutes, and then discussion. All right, ready to go? Go right ahead, please.

Mr. Frank Smeenk: My name is Frank Smeenk. I'm the president of KWG Resources Inc.

Mr. Gilles Bisson: Can I ask you, Chair, to get order? I can't hear. People are yakking in the back there.

The Chair (Hon. Gerry Phillips): Can everybody—if you want to talk, please move to the hall.

Sorry; go right ahead.

Mr. Frank Smeenk: I'm the president of KWG Resources Inc., a junior company listed on the TSX Venture Exchange. KWG's market value is about $70 million and we have six full-time and three part-time employees.

KWG is much in the news for being involved in the discovery of chromite in the James Bay lowlands of northern Ontario. This is a development that the Ontario government is very enthusiastic about. It would appear that Canada could become an important source of chrome for stainless steelmaking globally as a result of this discovery and its development. It looks to us in the industry to perhaps be the beginnings of another Sudbury or Timmins.

The greenstone belt in which the discoveries are being made is somewhat circular. The initial discovery was made by a junior company called Noront, whose then-president, Richard Nemis, is a great Johnny Cash fan. When he labelled the area the Ring of Fire, it was the first time in Canadian mining history that a staking rush had a theme song. The name has stuck, and you will be hearing a great deal about the Ring of Fire in the future.

I was with Richard yesterday and he gave me a quote to pass on to you. He said, "The merger of the TMX and LSE is possibly the single best thing that has ever happened for the junior mining industry," and I agree with him.

Junior companies have no income and must sell stock to get the money to do what they do. The LSE is the stock market not just for a population that is double that of Canada's, but also for the wealth of the large parts of the globe that used to make up the British Empire. These are predominantly what we call accredited investors. By merging the TMX and LSE, the junior mining industry will have access to many, many times more accredited investors than now.

When junior companies sell stock to raise money, they mostly do so through private placements to accredited investors. Therefore, the merger of the exchanges will greatly expand the opportunities for junior mining companies to find capital. The merger of the exchanges will also be good for the market in shares of junior companies in another way, and that is the increase in liquidity, or the opportunity to buy and sell those shares after they have been issued in the private placements.

Very simply, a stock exchange is a place where there is an auction in shares. As with the auctioning of anything, the more potential buyers there are in attendance, the more bids there will be for the offerings.

I think the buyers will not just double in number; they will multiply. That is because the pile of money at work in the combined market is much more than just double, and that is partly a function of all that focus of wealth from the former British Empire. It is stupendous, if you think of only one or two oil sheikdoms, to start the tally. Because so much of the LSE's centuries of experience is built on the international trade in commodities, there is profound institutional expertise in resource risk analysis in London. They really do know from mining something.

I predict that a merged TMX/LSE will precipitate an entirely new era of exploration and discovery because more smart money will be shown the opportunities and understand what they are looking at. A few years ago Donald Ross was given a lifetime achievement award by the Prospectors and Developers Association convention. He is a giant in the junior mining industry as the chairman of Jones, Gable, and was the chairman of the TSX listing committee for many years. In his acceptance speech he said, "You know, when you look around Toronto now with bank towers sprouting everywhere, it is mining that did this. When mine financing moved from Montreal to Toronto some years ago, that's when Toronto took off. And it was the prospectors and junior companies that found those mines. Now they've created a world-class banking industry."

If you now move mine financing from London to Toronto, as this merger will do, at a time when the world's population demands entry into the middle class, the possibilities are endless. That's my opinion.

The Chair (Hon. Gerry Phillips): Thank you very much. The plan is to have each caucus question one—and we've got 14 minutes, actually.

Interjection.

Mr. Peter Shurman: Do you want to do five minutes each? Or do you want us to go the whole 14?

The Chair (Hon. Gerry Phillips): Do you want me to rotate around on this one?

Mr. Peter Shurman: Five each is fine.

The Chair (Hon. Gerry Phillips): Or three minutes each.

Mr. Peter Shurman: Okay. We'll start. Thank you very much for appearing here, Mr. Smeenk. I'm interested in the Ring of Fire and I'm interested in what you're doing, and I note—and I'm paraphrasing here—your suggestion that this would precipitate quite an influx of capital from markets that are really not exposed at this point. So I'm interested in your view of what the source of that capital will be. Where, specifically, is that money coming from as a result of this merger, money that's not here now?

Mr. Frank Smeenk: The merged stock exchange will have the authority—or the imprimatur—on the issues that they both list. Therefore the junior sector, which we have a lot more of, will become part of the bill of fare, if you will, that's available to the investors in London. I think all of us in this business have been to the European capitals many times to look for money. I remember years ago, you couldn't not stop in the Kuwait Investment Office. They had an appetite. They would look at everything.

More recently, it was an outfit called RAB Capital. They were able to raise all kinds of capital from European investors into a mutual fund which was focused on resources. That's a phenomenon that recurs, and finding those resource issuers for them was difficult. I think this will make it much simpler. The bell curve of investment science is: Put most of it into gilts and a little bit into physical metal and then a little bit into the riskier stuff. It's just a function of the pile of money, and there is a pile of money over there, and they do know something about mining.

Mr. Peter Shurman: There's no doubt that there's a pile of money over there, and I see that, if I'm looking at the benefits side of the ledger, as a benefit, as do you. I'm a little bit concerned, however, with that fact that if you know a modicum of information about how stocks are traded and you know what our Toronto exchange is, primarily our listing, you know that this is a massive home for junior mining stocks, of which you are one—thousands of them.

That being the case, I've got to conclude that savvy investors the world over who are looking at junior mining stocks and understand that we are a resource-based world, and that Canada is a resource-rich—I mean, what do we have? We have rocks and trees. That's what Canada's about. We have a heck of a lot more of that than we do people. That being the case, would a savvy investor anywhere in the world who recognizes that not be here in any case, regardless of whether we're merged?

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Mr. Frank Smeenk: They find us, but it's costly and it's time-consuming. If we can make it easier for them to find more of us, there will be more liquidity. The junior end of the market doesn't absorb a lot of capital, so a little bit of capital over there is a lot more sustenance for exploration here and job creation in our tree-and-water businesses.

The Chair (Hon. Gerry Phillips): Mr. Bisson?

Mr. Gilles Bisson: Frank, it's always good to see you.

Mr. Frank Smeenk: Likewise.

Mr. Gilles Bisson: Let me just carry on from the conversations or questions I had with both the London folk and the Toronto folk.

I get the argument. Your argument is that it's a bigger pool of capital and it allows me, as a junior mining company, to have more access to money. Everybody understands that. But there is a concern, and I've heard this many a time from various people I've met with in the mining industry—we're talking about the junior mining industry, not so much the majors—that you could end up in a situation, over the longer run, with the structure of this agreement, to find yourself with decisions being made that may not be in the national or provincial interest.

My question to you is, do you think that we should have more regard to making sure that unless we have some good guarantees within the agreement protecting our interest, we should not pursue that?

Mr. Frank Smeenk: No, I think you should pursue it. I'm not commenting on the terms of the deal. I was here for an hour before. If there are issues like that, I think they need to be addressed. As an Ontarian, as a Canadian, I would like to see them addressed.

Mr. Gilles Bisson: Toronto is where it happens. If I remember, looking at the numbers, there were four new listings in London last year; there were 1,500 in Toronto. That pretty well tells you what we're good at. People like you are out there finding mines all over, not only in Ontario but, quite frankly, across the world—specifically more in North America, but Australia as well—and you come to Toronto. Why? Because we have a very robust and a very good platform by which to list and for you to raise money.

If we're really good at doing something—and I ask the question to you that I asked to them—why don't we say, "Okay, if you're interested in merging, we'll be the senior partners"? Why wouldn't we take that position?

Mr. Frank Smeenk: If not on the whole deal, certainly in this part of it there's an aspect to listing and fees that you touched on earlier.

Mr. Gilles Bisson: I was going to get to that in my third question, but to my first question that I asked you.

Mr. Frank Smeenk: I agree with you.

Mr. Gilles Bisson: Okay. Now, listing and fees—can I roll all my time into one?

The Chair (Hon. Gerry Phillips): I want to be sure we give everybody a shot at it. Gilles, if you can ask it fairly quickly, I'd appreciate it.

Mr. Gilles Bisson: Yes, it's very quick. On the listing fees, they're saying, "No, we're going to become even bigger and we're not going to raise your fees." Your thoughts?

Mr. Frank Smeenk: It would be a new experience in my lifetime, but it's not a big deal. It is a big deal from the perspective of the business of a listed stock exchange which keeps a gate and creates a club for listed companies. That's a way to get the quality of issuers that they want. But the junior end of the market creates listing fees; that's virtually what we do, because we sell stock all the time in order to get capital to take the risk with and there's a fee every time we do that. And they're substantial fees.

I suspect, from a business perspective, that the merged stock exchange is going to look jealously at the junior end of things to ensure that we continue. If I'm right, and all of those accredited investors, the little investment companies on behalf of the many princes in the Middle East, have an appetite for this kind of thing, which they do, then we will have access to that capital and we'll create more listing fees. I see the synergy and the business benefit there.

The Chair (Hon. Gerry Phillips): Thank you. Mr. Brown?

Mr. Michael A. Brown: Welcome. I'm also a northern member and obviously very interested in the mining aspect of the TMX and the proposed merger.

I want you to expand a little bit. It seems to me that the marketing of your shares, generally speaking, is extremely important. Is that what you find attractive with the merger: that we are now going to be, as Ontario companies, able to market these junior shares over a far broader market? That's my understanding. Is that what you're here to tell us?

Mr. Frank Smeenk: Yes. My appreciation of it would be that you've doubled or tripled the number of keys on the piano from the perspective of the money managers in the UK and in Toronto. But the money managers in the UK have a lot more horsepower, a lot more money to deploy.

The fundamental investment rule is diversification. They will benefit greatly from having the opportunity to diversify into what we issue here and into the junior market. I want to reiterate the fact that in my own personal experience, the depth of expertise and due diligence that is available in the city of London is second to none in the world. They really do know this stuff. We do, but they do too.

Mr. Michael A. Brown: This is access to a resource market that is politically very stable, as opposed to some other resource markets we may be looking around the world at?

Mr. Frank Smeenk: There again, Gilles mentioned that we go exploring everywhere. Canada, as it happens, is first among equals in putting money together to put the concept together and test the potential, the risk-reward algorithm, of mineral potential everywhere in the world. We have been leaders for a number of decades now in geophysics, and we've maintained our leadership as the computer has turned that into a tremendously powerful instrument. And we just have the schools and the mentoring, and those banks hire a lot of geologists and engineers. You know, the system is here so we produce top-flight explorationists—"earth scientists" is the umbrella term. We're very good at that.

The Chair (Hon. Gerry Phillips): I think we've run out of time. Thank you very much for your presentation. We appreciate it very much.

Mr. Frank Smeenk: You're welcome.

ALPHA GROUP

The Chair (Hon. Gerry Phillips): The next presentation is the Alpha Group. Hi. How are you doing? Welcome.

You have 20 minutes. Our preference would be to leave as much time as possible for questions. For Hansard's purposes, could you identify yourselves so we get that on the record, and then begin your presentation.

Mr. Jos Schmitt: Okay. Thank you, Mr. Chair and members of the committee for giving Alpha Group the opportunity to talk about this merger. My name is Jos Schmitt. I am CEO of the Alpha Group. I have with me Randee Pavalow, who is head of operations and regulatory matters.

Je souhaite répéter ces remerciements en français, et je suis tout à fait à votre disposition par après de prendre les questions en français également si vous le souhaitez, mais je continuerai la présentation en anglais.

Notes have been distributed to you that summarize some of the comments I will make here. For lack of time, those notes are only available in English, but we'll also have French notes available shortly.

A few words about Alpha Group: Alpha is an electronic trading system that provides Canadian dealers with an alternative to the TMX when they want to trade in TSX or TSX Venture listed securities. We launched in November 2008, and today, from a market share perspective, we represent about 20% to 25% of all volume traded in TSX listed securities and 10% to 15% of all volume traded in Canada in venture securities.

Our founders are nine large Canadian financial institutions, including six large bank dealers and the Canada Pension Plan Investment Board. Their objective—their ambition when they established this organization—was really to bring credible competition to the TMX, which, after its demutualization in April 2000, became a de facto monopoly with all typical behaviours that you could expect from a monopoly.

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What have been the results we have achieved so far? I'm happy to report that we definitely managed to have a considerable impact on the cost of trading in Canada, reducing the cost of trading.

I think we have played an important role in increasing liquidity in the Canadian market and, hence, making access to capital less expensive.

I believe that we played a role in repatriating some of the volume in inter-listed securities—securities which are listed both in Canada and the US—where we've seen an ongoing trend since the late 1990s of more and more of that volume being traded in the US, and now we have seen that trend being capped.

Last but not least, I think we've also been somewhat of a catalyst of change and innovation in the Canadian financial industry. I would say that the TMX itself also reacted to that, definitely from an equity trading services perspective—and that to the improvement of the global competitiveness of our markets.

Our intention is to continue to bring competition to this market. We want to bring it into the listing space. We filed for an application to become an exchange here in Canada. We filed the application in April of last year with the OSC. We hope it will come to a conclusion sometime in July, allowing us to start the initial listings sometime in September.

We also intend to bring competition in the derivatives trading and clearing space, and we are currently working on a strategy to support that.

We want to bring competition in the index space, which is also an important component of the industry, and there we have a strategy which is under execution.

So that is who we are.

I'll move over to some comments about the merger.

The first comment I would make is that this type of merger, for me, is not really something new. Having spent a large part of my life in Europe, I've seen it many times, first through the Euronext merger and then the subsequent mergers that we saw over there.

First, you see a demutualization taking place, and you create a monopoly. That monopoly then obviously starts to show those monopolistic behaviours and leads to the need for competition—and competition also came in the Canadian market. Then there's a challenge to be able to fence off that monopoly, and the answer then very rapidly becomes, "Let's merge with some peers abroad so that we can find a new playing field there, so that we can find a catalyst to ensure change in our organization and in our culture." Often globalization is invoked as the sole driver, but I think it's one element that is really driving these mergers.

The second important element that we need to always keep in the back of our mind with these developments is, what drives it? Let's be very honest: It's not the better interests of the issuers, the investors or the financial industry; it's the better interests of the shareholders and management. That is what a capitalistic system is based upon, so it's not necessarily a bad thing.

Three, when I look at the merger over here, we also have to be very realistic with that regardless of the concessions, regardless of what is promised for the next several years: The centre of gravity of this merged entity is going to move from Toronto to London. What is also true is that that new centre of gravity is not going to look at Canada as its sole and prime region to service. It's going to look at things in a much larger context. Canada is going to be one component of that larger context, and that context is going to expand. It's also clear to me that this is only a first step in building a much larger network, which will probably also cover Asia and which, at that moment, will further diminish the influence of Canada.

Those are a couple of facts that we need to keep in the back of our mind. As I said, all of that is not necessarily bad. We just have to be aware of it. If you keep that in the back of your mind, you then need to look at the TMX, the identity that's going to be merged, and you need to understand what we are merging. What is it that we are merging over here?

When I look at the TMX, I really see two components. I see what I would qualify as strategic components, components that are strategic to Canada, and I see non-strategic components. So what are the non-strategic components? Those are the components that you can easily replace. Those are the components where competitive forces can play. What is that? Technology, trading—we have proven it already—listing, I would even say. Those are elements that you can replace. But there are also components that you cannot replace. There are components which are strategic and core to the good functioning of the financial markets here in Canada.

The two that I would focus on are the indices, the benchmark indices, the S&P 60, the S&P Composite. These are referenced by the Canadian pension funds, these are referenced by a lot of major institutional investors who are managing assets. That is a core element of the good functioning of our market and something that we need to be very cautious with.

Another strategic asset that I see is the plumbing that is supporting our financial markets. What is the plumbing? Those are the systems that are standing for the accounting and clearing of securities and derivatives transactions. Typically, I'm thinking about the Canadian securities clearing agency and depository, known as CDS. I'm also thinking about the clearing house for derivatives, which is CDCC here in Canada.

Those assets are strategic to the good functioning of our market, and while I don't see any issues with a merger taking place that involves non-strategic assets—it's normal, it's a logical evolution of things—I think we have to be very careful with the strategic assets. I think those strategic assets need to remain under full Canadian control. That can be done either by the TMX divesting them before the merger or it can be done by potentially changing some parts of the regulatory framework. Do we need to benchmark all assets, for example, to the S&P 60, or could we open it up to other indices?

Finally, last comment: I also think that within the perspective of this merger, some other regulatory initiatives need to be fully executed upon to enable true competition, because competition is very key going forward, more than ever. The two that I would immediately think about are (1) making sure that we move forward with the recognition of Alpha as an exchange and (2) making sure that we see regulatory intervention around market data fees. Market data fees today in Canada are extremely high, they are prohibitive, they inhibit market participants to access market data from all the marketplaces, and this is something that is hindering their competitiveness.

If those conditions are fulfilled, the conditions of securing what I would qualify as strategic Canadian assets, if we put in place an environment that would really force the competition, I would be quite comfortable to see this merger going ahead and I would be quite comfortable for Alpha to take up the role of being a strong competitor that will look after the interests of the Canadian market and maybe become the new-generation Canadian exchange. Thank you.

The Chair (Hon. Gerry Phillips): Thank you. Again, we've got about eight minutes. If we can split it among the three, if that's okay—two and a half minutes or so.

Interjection.

The Chair (Hon. Gerry Phillips): Let me start here; we finished there the last time. Well, okay, we'll start with Gilles.

Mr. Gilles Bisson: I'm easy.

The Chair (Hon. Gerry Phillips): We'll make sure you get your two minutes.

Mr. Gilles Bisson: God, what is this world coming to when you agree with the banks, as a New Democrat?

Like you say, I understand there's some benefit to this. The problem is that the devil is in the details. I thought your presentation was one that was interesting. Now, of course, you have your own interests that you need to protect, and I understand what you guys do and how you relate to the TSX, so I'm not going to get into that; I don't have the time.

One of the things that comes over and over again when I've been talking to people in the mining industry—those people are in the supportive roles of listing stocks and doing the work around that—there really is this sense that we're going to end up, over a period of time, moving things to London to a greater degree than we'd like. I do know, for example, there are friends of mine who are in the industry who have already been headhunted by London.

To what degree, if we don't put these safeguards in the agreement, is that going to put us at a disadvantage?

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Mr. Jos Schmitt: I think that evolution is a risk, and it's probably a reality.

I can always look back at history, at the past. I was very closely involved in some of the mergers in Europe, and I'm thinking specifically about the Euronext merger, which was one of the early ones that took place.

If you asked the opinion today of some of the market participants in the Netherlands or in Belgium who saw that merger with Paris Bourse taking place in those days, I think they will tell you their role and involvement in any of the strategic decision-taking of the new entity was minimal and minimalistic. Once Euronext merged with the New York Stock Exchange, you can imagine how that further evolved and how the evolution went on. I think it's a reality.

I also think that if you put too many constraints in place that prevent a company from taking its own strategic decisions, you also make it impossible for it to continue to focus on creating shareholder value. You have to be very careful about the right balance there, but that's a choice you make when you merge.

Mr. Gilles Bisson: But that has little to do with—

The Chair (Hon. Gerry Phillips): We have to move on, I think, Mr. Bisson. I'm sorry.

Mr. Gilles Bisson: Okay, thank you.

The Chair (Hon. Gerry Phillips): Mr. Arthurs.

Mr. Wayne Arthurs: You made a reference in your deputation about looking for Alpha to be recognized as an exchange and a truly competitive model with the TSX.

The regulatory regime that's in place—if this merger goes forward, there's obviously some concern about that shifting, that movement of control over time, to the FSA or offshore. What do you see happening to the regulatory control structure? Do you see it shifting to London from here? And what would that do if in fact you became an exchange?

Mr. Jos Schmitt: From a regulatory perspective, I don't think we espouse too many details about what exactly the regulatory model is going to be which is going to accompany this merged entity. I think it's one of the critical questions that we all have to ask ourselves.

As regards Alpha becoming an exchange, we will be subject to all domestic regulations and we will be subject to the oversight of all the applicable Canadian regulators.

Mr. Wayne Arthurs: Do you see the FSA having a greater influence on our marketplace over time if this merger were to go forward?

Mr. Jos Schmitt: It's an interesting question. Again, let me put this in a different context. There are a lot of discussions going on today around the clearing of OTC derivatives, subsequent to the financial crisis that we went through. Where you see a lot of debate today is around oversight, monitoring and intervening when another financial crisis takes place, within the framework of those clearing houses that are being set up to clear those OTC derivatives.

If some of the services that are today part of the TMX—that's what I call a strategic asset: the central clearing house, or the CCP, for listed derivatives. If that becomes part of a merged entity, where the centre of gravity is in London, I can see some very interesting developments taking place, when there is a new crisis, about who's going to call the shots. I don't know who it is, I don't know what the model is, so I cannot give you the answer, but I can see the complexities.

The Chair (Hon. Gerry Phillips): Thank you. We'll have to move on. You've got about three minutes or so, Mr. O'Toole.

Mr. John O'Toole: Thank you very much for your presentation. It's a technical area, and certainly, I respect the input from my counterparts here. I do have people in my riding of Durham who are interested in the proceedings, and I've committed to being on the record first and also to forward the submissions.

You raise a couple of issues, but in the broader sense, moving back, with Canada being a country of 30-or-so million people, and the purpose of markets being to raise capital, is this a good thing, or good sense, despite the strategic-assets arguments that you make, for the Canadian company group trying to raise capital to be aligned with London, a larger market?

Mr. Jos Schmitt: Yes, that's a very difficult question for us to answer, and I'll tell you why in a few seconds.

First of all—maybe you have more; I could not participate in the earlier presentation—we don't have a lot of details, so it's hard to say this is going to be good or this is going to be bad. What exactly is it going to be? What is going to be the regulatory model? What are going to be the fee strategies going forward? What is going to be the strategy around supporting capital formation in Canada? I don't know what they are. That is the first comment that I would make.

Two, I think that Alpha itself—let's be very honest. I see this as an opportunity for our own organization, to your earlier point, to grow, to develop ourselves and to become the Canadian de facto exchange. So I look at it from an Alpha perspective as something positive.

Three, I think the people who really need to answer these questions are the issuers, the investors and the other stakeholders in the industry, because it is their businesses that will be impacted and it's they who need to get the answers to the questions that I've put forward.

Mr. John O'Toole: With respect to the other part of this, you mentioned strategic assets and I inferred that the regulating side of it—the regulators and the OSC and others—needs to remain under full Canadian control. So you see that as being something that's mandatory if the merger went ahead, that these strategic assets, you call them, remain under the Canadian model. That's another whole debate about having multiple regulators in Canada.

Mr. Jos Schmitt: Yes, I think it's very important that those remain under Canadian control, because, if they are part of an entity which is a competitor, you are closing the door to other new entrants, so other new entrants will not be able to compete and provide in a fair way services within the frame of derivatives or trading services or in the frame of listing—just name it.

I think if that merged entity is in place, with all the implications that I mentioned earlier, you have to make sure that you maintain in Canada an environment that allows competitive forces to play out, and, second, you also want to make sure that on some of those critical components that are very key to our industry and the good functioning of our industry in good times and difficult times, that those remain Canadian, under the control of the Canadian regulators, absolutely.

Again, I reiterate my point around clearing houses; I reiterate my point around the Canadian securities depository.

The Chair (Hon. Gerry Phillips): Thank you very much. Thank you for your presentation; we appreciate it.

Mr. Jos Schmitt: Thank you very much.

WELLINGTON FINANCIAL

The Chair (Hon. Gerry Phillips): Wellington Financial, Mr. McQueen. Thank you very much for being here. We have a 3 o'clock deadline, so we're moving along. If you could just introduce yourself and then begin your presentation, we'd appreciate it.

Mr. Mark McQueen: Thank you very much for having me, Mr. Chairman. I've got an hour presentation and 10 minutes to do it in, so I will be quick.

My name is Mark McQueen. I'm president and CEO of Wellington Financial. We manage a $450-million investment program, and we're Canada's most active venture debt fund. Our last two funds have led more than $350 million of financings and created 7,000 jobs.

We work in the technologies base primarily, but we do clean tech, alternative energy and biotech.

If there's one thing I've learned after 18 years on Bay Street, it's this: Whatever the size of your business, capital is required to succeed. There are just three sources of private capital: your own resources, debt from banks and specialty finance firms, and equity from angels, VCs and institutions.

The ability for Canada's non-resource growth companies to access capital has waned over the past 10 years. This was exacerbated during the financial crisis; 2010 marked the lowest point in 16 years for fundraising by VCs in Canada. Our chartered banks have less money in the economy. Between December 2008 and 2010, lending to Canadian-based businesses dropped by $22 billion.

Wherever we turn, it's nothing less than a capital crisis for innovation-related companies, yet capital is required to turn Canada's multi-billion dollar annual investment in R&D into jobs. There's a growing awareness of the challenges that Canadian early-stage companies have raising capital and the impact that this will have on innovation, commercialization and productivity.

Since 1852, the TSX model has served Canadian entrepreneurs and investors well. The simple issue in this proposed merger is, how will entrepreneurs and domestic investors be better served and protected if the merger proceeds? Globalization sounds exciting, it may be necessary, but foer most companies around the world, the reality is that they raise their capital locally.

The argument, "Look at the Australians and the Germans and the NYSE: Everyone is doing it," isn't compelling. Canadians are proud of our introspective approach to global business trends. If not, Canadian banks, life insurance and wireless companies would be allowed to merge, just like south of the border.

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The first thing we have to appreciate is how relatively small most of the TSX companies are. The TSX and Venture are home to 4,200 listings. Of those 4,200 tickers, 244 are in the composite, and the smallest market cap of those 244 is $435 million, which means that more than 90% of our listed companies have a market cap below $250 million. Since the vast majority of our companies are small caps, they're already below the radar screen of most global investors. The issue isn't where they're listed; the issue is simply that they're too small to matter to most large institutions. These companies are, however, able to gain the attention of several Canadian investment banks and their VCs, provided that a critical mass exists for a boutique brokerage industry that can survive following the proposed merger.

Most successful Canadian companies in the growth world have initially cut their teeth on our local market: Aastra, ALI, Ballard Power, DataMirror, Hummingbird, MacDonald Dettwiler, MKS, QLT, Research in Motion, Sierra Wireless and SXC. Even Celestica did a $360-million joint TSX/NYSE IPO in 1998, which was the largest tech IPO in Canadian history at the time. Sixty percent of the first day's trading took place on the TSX instead of New York. Thirteen years later, nothing is different, despite a long-standing stock listing and a $2.5-billion market cap.

How can a Canadian small-cap company with a market cap one tenth the size of Celestica get any attention in London or Frankfurt or Zurich if a firm like Celestica, with $7 billion of revenue, is still a Canadian-dominated story? Despite the mature listing on the New York exchange and massive revenue, half of Celestica's equity research analysts are from Canadian banks. Imagine how hard it is for a Canadian small-cap CEO to get coverage.

Myth number 1: A merger will improve our access to capital. This is the allure. We're led to believe that new markets will suddenly open, providing Canadian firms with incremental avenues to raise needed capital. I feel like I'm Bill Murray in that Groundhog Day movie. In 2001, 140 Canadian companies were listed on the NASDAQ. Much has changed in the decade that followed. Angiotech Pharma, Certicom, DataMirror and 724 are all examples of Canadian-based innovation firms that realized a dual listing wasn't worth the hassle and additional cost burden.

It's not just tech companies that have kicked the tires of foreign exchange. The Bank of Montreal cross-listed on the New York exchange, but a majority of their trading is still done on the TSX 15 years later. A large chunk of TD Bank's business is in the US, yet 80% of the share trading in the last 90 days is on the TSX and not New York. CanWest delisted from the New York exchange in 2007. CEO Leonard Asper said at the time, "Capital is more mobile than ever and those who want to invest in CanWest have a very liquid exchange in Toronto. The trading volume of our securities on the NYSE is not sufficient to support the continuation of our listing and the ... costs."

Nor is this the first time we've heard the "It's better in Basel, Berlin and Bruges" story. In 1998, the NASDAQ was the place to be for a hot Canadian tech company. By 2006, it was replaced by the LSE AIM exchange as the go-to market for growth capital. That's their version of the Venture Exchange. That year, then TSX Venture Exchange president Linda Hohol said the AIM regulatory environment was their Achilles heel and it lacked CEO and CFO certification of financial statements.

SEC commissioner Campos said in 2007 that 30% of the AIM listings would be gone in a year: "That feels like a casino ... " he said, "and investors will treat it as such." That didn't stop us from sitting down at the blackjack table at AIM. Several Canadian firms were dazzled by the promise of improved access to capital and listed on the AIM exchange in England in hopes of attracting UK- and European-based institutions and research analysts. Thirteen companies alone took the leap in 2006. Many were dual-listed with the TSX, but material investment-banking revenues, which in turn pay for local equity research analysts and traders, flowed away from Canada.

Our brethren quickly realized the LSE AIM was no panacea. Within 20 months, Ottawa's DragonWave delisted from the AIM. The company said the decision was based on low trading volumes and the costs associated with the listing, and the company "does not expect the liquidity or marketability of [our] shares to be materially affected by the LSE AIM delisting." Ottawa's March Networks, Sir Terry Matthews's company, did a dual IPO on the TSX and AIM in 2005. It delisted from the AIM in 2008. Waterloo's Sandvine tried the AIM LSE solo route in 2006, but added a listing on the TSX six months later. Markham's Redline went public on the AIM in October 2006 and realized that there was no "there" there, and they listed in Toronto in 2007, and 14 months later they delisted from London. Mississauga's Redknee Solutions went public in March 2007 on the AIM and added the TSX in October 2008. Today there's no mention of the AIM listing on their website.

At the time, Sir Terry Matthews declared that everyone's Canadian startups would be going public on the LSE and searching for capital in Europe for their IPOs, yet when he took Mitel public last year, he chose the NASDAQ and not the LSE AIM. As with Elizabeth Taylor's eighth marriage, think of the improved-access-to-capital argument as the triumph of hope over experience.

The disappointment of pan-Canadian cross-listing is not just a Canadian phenomenon. European firms such as UK-based Imperial Chemical, Ducati of Italy, Israel's Koor Industries, Netherlands-based TNT Express and Norway's Telenor have all delisted from North American exchanges. Despite having market caps larger than $25 billion in some cases, firms from around the world recognize that all companies have a natural investor following, and it's rarely overseas. Even large-cap Canadian CEOs realize you can't push your story onto foreign markets. As the ARC Resources CEO said to the Globe and Mail, "[I] don't really expect the merger to have any real effect on business. [It] may facilitate increased investment from Europe but certainly not material." His market cap is $7.5 billion.

Myth number 2 is that nothing will change for TSX-listed firms. This is a hope, but there can be no promise. Canadian regulators are certainly the appropriate place to ensure there's a strict regulatory environment, post-merger, for all Canadian-based issuers; however, the soon-to-be former board of directors of the TSX and minority shareholders cannot practically prevent the combined TSX/LSE entity from merging the TSX Venture with the wild west AIM down the road should it decide further cost synergies are needed. And certainly, as others have said, the merged LSE/TSX may ultimately choose to merge with the NASDAQ, NYSE or Singapore down the road, and everything achieved in this round will be up for grabs at that point.

If you feel you must recommend the merger to the Legislature, please require that the TSX draft a memorandum of understanding with its listed companies, regulators and provincial governments. The MOU would outline all of the key public concerns and the appropriate fixes, and I've got some tabled in front of you. But give the MOU some teeth: With your consent, require the TSX/LSE entity to issue a golden share to the province of Ontario, to be held in trust by the Minister of Finance. Think back to the recent US Steel acquisition of Stelco: Industry Minister Clement found out, to the horror of Stelco workers, that the bite of the Investment Canada Act is quite benign after the fact.

Like any golden share—think Petro-Canada—it is harmless, non-dilutive and non-voting in the course of the daily operations of the entity, but it should give the minister the power to require a de-merger—think a spin-out—of the TSX from the LSE should the MOU not be upheld down the road. This would be far more effective and immediate than having to sue in court, as is required today under the Investment Canada Act. If the LSE won't agree to the suggestion, you've got to ask yourselves why not.

The Legislature should also require the TSX to report annually on the key metrics that are of most relevance to the vast majority of TSX companies and the various industry stakeholders.

With this golden share in hand, the Legislature of Ontario could consent to the proposed transaction if you feel you must, while ensuring that Canadian capital markets continue to function as we expect and require.

It is easier for some of us to fear the unknown and find cogent reasons to say no. Certainly, most Canadian financiers have learned, in the past two decades, that you can't export stocks. It's incumbent upon you, if I may say, that the promised merger benefits must come to pass and that the obvious risks don't damage our capital market system. We only have just the one.

Thank you for having me today, and I'll take your questions.

The Chair (Hon. Gerry Phillips): We've got just eight minutes exactly, so just one quick question from each caucus if we can? Wayne?

Mr. Wayne Arthurs: As quick as I can, Mr. Chair. It won't take too terribly long.

That was 10 minutes. You got an hour in 10 minutes.

Mr. Mark McQueen: I'm sorry I spoke fast.

Mr. Wayne Arthurs: That's okay. To some extent you're talking a language that some of us, at least, in this room don't gather as quickly or as well.

Speak to me briefly, if you would, about the golden share and the Petro-Canada example you were using.

Mr. Mark McQueen: When John McDermid capitalized Petro-Canada and they spun out of the government as a private company, there was a share called the golden share that the crown held. It was a veto, in essence, over material transactions and prevented a takeover of Petro-Canada. It worked for 25 years, and then things passed and the world changed and the government of the day was prepared to allow Suncor to buy it. But it worked for 25 years, until a future government was comfortable with that kind of material change.

Mr. Wayne Arthurs: Effectively, the federal government protected Canadians by maintaining an element of control, effectively a veto power—

Mr. Mark McQueen: The public policy interest you are trying to serve would always be served.

Mr. Wayne Arthurs: Thank you.

The Chair (Hon. Gerry Phillips): Mr. Shurman?

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Mr. Mark McQueen: How are you?

Mr. Peter Shurman: Good. Thanks for being here.

About an hour ago, we had a submission from a small-cap, $70-million mining company called KWG. He's got nine employees and he's in the Ring of Fire, and he thinks this is the greatest thing since sliced bread.

Why the diversions, do you think, between where you're coming from—

Mr. Mark McQueen: You don't know what you don't know, I think. I've been doing this almost 20 years, and I've seen the odd storyline like this before. We've seen it with the NASDAQ and we saw it with the AIM. We're lucky to have the kind of markets that we have. Let's just declare victory and preserve what's good.

Mr. Peter Shurman: Interesting point of view, and very succinct, but your view is still at odds with global trending. I'm playing devil's advocate here, because I happened to be about 10,000 kilometres from here when this announcement came out, and I happened to be watching CNBC. They went crazy—the London Stock Exchange and the TMX. Within an hour, the NYSE and Deutsche Börse announcement came out, and that was the end of what I was hearing about Canada—the point being that this global tendency was in my face; it's in all of our faces. If there's a global orientation, you seem to be going against the current. I know you've been in it for 20 years, but so have these guys.

Mr. Mark McQueen: I think the difference, as Dalton Camp would say, is that the case has not been made. The positives have not been demonstrated. The fact that we might lose something, which is what you're talking about it, if we go against globalization—a bunch of other sectors of our economy do just fine, despite the fact that we don't get on the fast train like someone else is doing. I'm not worried about a good Canadian story raising capital. What I'm worried about is that if we have a sea change in what makes our capital markets work, that good story will not be able to raise money anymore.

Mr. Peter Shurman: You talk about controls and technologies, and you brought up AIM and so forth. When we discussed that—and I think you were in the room—with the people from TMX and LSE, they talked about—again, this is a huge divergent view, and there must be something empirical about technology. They're saying that we're going to leverage this thing and our economy's scale will be fantastic.

Mr. Mark McQueen: That only matters to the person who pays the fees, who is the shareholder. For the issuer, if their listing costs aren't going to change and their shareholders are in Toronto, Montreal, Vancouver, Winnipeg, Halifax or maybe, if they're lucky, in Boston—

Mr. Peter Shurman: So I'm going to summarize you by saying that if it ain't broke, don't fix it.

Mr. Mark McQueen: That's a fact.

Mr. Peter Shurman: Thank you very much.

The Chair (Hon. Gerry Phillips): Mr. Bisson?

Mr. Gilles Bisson: Just for the record, KWG—Frank Smeenk wasn't saying that he thinksthat, at the end of the day, if we don't protect ourselves properly in the agreement, that it's a good thing. What he's saying is more access to capital is a no-brainer.

Mr. Mark McQueen: As a theory, but it's just not provable in this case, and there's lots of examples of how it hasn't helped us.

Mr. Gilles Bisson: What I'm hearing from the mining industry, and what I heard from Frank, is basically the same thing, which is, the devil's in the details. We need to make sure, if this does go forward, that you protect yourself in the agreement.

But you're going one step further. The point that you make is an interesting one; you're saying that the raison d'être—not the raison d'être, but the strength of the TSX is that we're really good, not only on the mining side, but from the small-cap side, being able to find capital for smaller companies. You worry, in your words, that if you become part of a larger entity, they will get lost in that. Do you want to expand on that?

Mr. Mark McQueen: I'm not worried about companies getting lost. You earn your reputation by doing good things and growing your business and having an important public company franchise.

The money industry is hot right now and uranium's hot right now; this is true, but in the course of the next 20 years, other things are going to happen—nanotechnology or life science or what have you. We need to preserve the cap markets for all and not kowtow to those who think there are some possible benefits to this deal because it suits their sector. The public market is for everybody, not just one. I hear a lot about mining, but you know what? There's thousands of companies in Canada that hope to be listed someday, and there's hundreds that are software and hardware and wireless and life science. They need you to protect them, too.

Mr. Gilles Bisson: But would you agree that the London exchange needs us more than the TSX, in the sense that the AIM experience, the market that deals with mining out of the London Stock Exchange, has not been very successful? What we have in Ontario works, so therefore if we merge and they're able to work on our platform, then it's a good thing for them. They need it more than we do.

Mr. Mark McQueen: If London companies or Nairobi companies or Kazakhstan companies that are currently on the AIM want to list in Toronto, I know they're welcome, because they're marketed to all the time. We have to worry, though, what's good for our economy and what's going to create jobs; what's not going to get in the way, what barriers won't be put up down the road to prevent capital formation from happening.

Mr. Gilles Bisson: Thank you.

The Chair (Hon. Gerry Phillips): It's approaching 3 o'clock. Thank you very much for your presentation. We appreciate it very much.

Colleagues, I think that wraps it up for today. We're on at 9 a.m. tomorrow morning.

Mr. Gilles Bisson: I thought we were not at 9 a.m.

The Chair (Hon. Gerry Phillips): It is at 9 a.m. tomorrow morning.

Mr. Wayne Arthurs: Can the subcommittee meet at 10:15 tomorrow, just briefly for five minutes and we'll sort out the OSC thing? Can we have time until Friday? Gilles says he's running upstairs.

Mr. Peter Shurman: He said he wanted it. I can talk to you.

The Chair (Hon. Gerry Phillips): We're adjourned now.

The committee adjourned at 1458.

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Also taking part / Autres participants et participantes
Mr. John O’Toole (Durham PC)

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Mr. Trevor Day

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