March 10, 2011

Mr. Trevor Day
Clerk of the Ontario Select Committee of the Ontario Legislature
Studying the Proposed Transaction of the TMX Group and
The London Stock Exchange Group

Dear Committee Members:

We sincerely appreciated the opportunity to appear before the Select Committee on March 2nd and to answer questions from members of the Legislature regarding the proposed merger of TMX Group and London Stock Exchange Group (LSEG). We have taken careful note of the varying opinions expressed at the Committee and would like to take this opportunity to review our position and to address a number of issues raised during the hearings.

We recognize that the merger proposal that we have advanced is complex and requires careful analysis by this Committee, the regulatory authorities across Canada as well as broader stakeholder groups, including but not limited to: Canadian publicly listed corporations of all sizes, the financial services community in Toronto and elsewhere across Canada, the organizations that are active participants on our exchanges as well as individual Canadian investors.

It is recognition of the importance of Canada's exchanges to these various stakeholders, and of the role the exchanges play in the development and growth of Canada's public capital markets that compelled our two organizations to develop a set of carefully crafted and detailed undertakings in our merger agreement. These provisions both protect the value inherent in TMX-operated Canadian exchanges and open new opportunities for growth that we believe will have far reaching benefits across the full spectrum of the Canadian business and financial services sectors.

Set out below is an overview of our proposal. Schedule A then responds to a number of key questions that have been raised about the transaction.

OVERVIEW OF OUR MERGER PROPOSAL

There are three fundamental points that lie at the heart of our merger proposal:

- **Regulatory Sovereignty**: Our proposal ensures the full and complete continued autonomy of Canadian regulatory authorities to exercise their existing powers and oversight responsibilities, exclusively, over TMX Group's regulated exchanges, such as Toronto Stock Exchange.

- **Governance and Management**: The proposed governance model guarantees Canadian management and governance of the TMX Group exchanges as well as Canadian leadership positions and long-term assurances of influence within the holding company that will own these exchanges.

- **Opportunity**: The proposed merger of our two corporations opens important new opportunities for the future growth and success of Canada's capital markets as well as for Canadian publicly listed companies of all sizes. Importantly, we expect that these opportunities will provide benefits such as increased employment in the financial services sector and wider business community and will help elevate Toronto to a position of greater prominence on the world stage.

Regulatory Sovereignty

Canada's regulatory regime has served this country extremely well. It has contributed to Canada's relative financial stability compared to our peer group, instilled confidence in the performance of our publicly listed corporations and fostered the development of the world's most successful marketplace for smaller, early-stage companies in sectors such as mining, energy, resource development and clean technology. It is imperative that this regulatory regime be preserved.

Therefore, a key part of our agreement provides clear and unquestionable assurances regarding the ongoing independence of Canadian and Ontario regulatory authorities. Full and exclusive domestic regulation and oversight of Canadian exchanges, clearinghouses and issuers is a cornerstone of this agreement. There is absolutely no extension of direct foreign oversight over these exchanges or any Canadian publicly traded company, today or in the future.

In summary, from a regulatory standpoint, the status quo will effectively be preserved, as outlined below:

- This transaction will result in a change in the ownership of the parent companies of the exchanges, but is not a merger of the exchanges themselves
- Regulation of the Canadian exchanges will not change, except to add protections to reflect the new parent company
- TMX Group, TSX, TSX Venture Exchange, NGX, MX and CDCC will continue to be based in Canada, locally managed and regulated by the OSC, AMF, BCSC and ASC, as applicable
- The parent company will provide undertakings to the OSC, AMF, BCSC and AMF regarding the operations of the Canadian exchanges, to enhance the already robust terms and conditions under which they currently operate
- Companies will continue to be listed on TSX and TSX Venture and the exchanges will continue to operate under their existing, highly recognized and valuable brand names
- TSX and TSX Venture listings standards and rules will continue to be developed in Canada, with the valuable input of our customers and other stakeholders, and will continue to be subject to the approval of Canadian securities regulators
- The OSC and AMF will have approval rights on any future transaction that results in a change in control of the new holding company
- The OSC maintains its public interest jurisdiction over how TSX carries on business and has the power to revise or revoke TSX's recognition order at any time

Governance and Management

We have developed a governance model that ensures that the Canadian exchanges will continue to be governed and managed by Canadians and that Canadians will hold senior leadership positions at the new parent company. This was fully negotiated as part of our merger agreement, and a copy is attached for your reference. We draw your attention in particular to Exhibits A and B to Schedule 5.5 of the Agreement (which set out the comprehensive proposed undertakings under the Investment Canada Act and to the Canadian securities regulators) as well as section 5.7 of the Merger Agreement which enumerates the proposed governance arrangements and the commitments of the new parent company to comply with Canadian securities laws and standards.

At the exchange level, the following ongoing commitments will be enshrined in undertakings provided to and enforceable by the OSC and other applicable Canadian securities regulators (see Exhibit B to Schedule 5.5 of the Merger Agreement):

- At least 50 per cent of the directors and members of each of the committees of the board of directors of TMX Group, TSX, TSX Venture Exchange, MX and CDCC will be both ordinarily resident in Canada and independent
- The head office and executive office of each of TMX Group and TSX will be in Toronto
- The CEO of each of TMX Group and TSX will be ordinarily resident in Ontario and their principal place of business will be in Toronto
- The most senior executives of TSX responsible for each of listing and issuer services, trading, market data, and compliance and regulation functions (or their equivalents from time to time) will be ordinarily resident in Ontario and their principal place of business will be in Toronto

At the parent company level, the following undertakings will be provided to the federal government under the *Investment Canada Act* until the fourth anniversary following closing (see Exhibit A to Schedule 5.5 of the Merger Agreement):

- Toronto will be global co-headquarters of the combined group along with London.
- Canadian residents will have 7 seats on the board of directors (compared to 5 for the U.K. and 3 for Italy), forming the largest contingent of the new board
- The Chair of the board will be a Canadian resident
- Canadian directors will have proportionate membership on all board committees.
- At least one standing board committee will be chaired by a Canadian
- The President will be based in Toronto and all global business units will report to him
- The CFO will be based in Toronto and will be responsible for the global finance function, which will be headquartered in Toronto
- The Global primary markets business unit (responsible for listings) will be headquartered in Toronto and run by an executive based in Toronto, ensuring that the competitive battle to attract and retain listings is led from Toronto
- The Global derivatives business unit will be headquartered in Montreal and run by an executive based in Montreal
- The Global energy business unit will be headquartered in Calgary and run by an executive based in Calgary

In light of the fact that business circumstances may change over time and the possibility that the combined company will enter into future transactions given the nature of the exchange industry and the fact that it is a public company, we have included the following adjustment mechanisms to the composition of the board and to senior management positions/headquarters. These provisions are intended to ensure that Canadian interests are safeguarded in the event of any change in circumstances during the period of the undertakings (see both Exhibits A and B to Schedule 5.5 of the Merger Agreement):

- If any directors are added during the period of the undertakings from outside Europe or from an acquisition target board, the continuing Canadian directors must remain the same proportion of all continuing directors as they were immediately before the change, subject to a minimum of 3 Canadian directors[1]
- Other than in the context of a significant acquisition or greenfield expansion, adjustments may be made to the location of senior management positions, global business units and support functions, provided an overall balance is maintained between Canada and the UK/Italy
- In the event of a significant acquisition or greenfield expansion outside of the UK, Italy and Canada, the board may add additional co-headquarters locations and relocate or change the company's global business units and support functions and senior management positions, after having regard to, among other things, the principle that the combination of LSEG/TMX Group is a merger of equals and that the company will continue to be co-headquartered in Toronto

After the fourth anniversary of the undertakings, the following ongoing governance commitments will be enshrined in undertakings provided to and enforceable by the OSC (see Exhibit B to Schedule 5.5 of the Merger Agreement):

- The number of Canadian directors on the board at the fourth anniversary may be reduced only as the board determines is appropriate in light of the overall current and prospective significance of the Canadian business to the combined business as a whole, having regard to both relevant financial measures and non-financial factors, including the strategic significance of the Canadian business to the combined business and the development of the combined business since the LSEG/TMX Group combination
- The adjustment mechanism referred to above is subject to the requirement that there be a minimum of 3 Canadian directors at all times; no other constituency has a similar guarantee
- There must be appropriate committee representation for Canadian directors, as determined by the board

Opportunity

Throughout the Committee hearings, we have heard speakers who believe in the future potential of the merged group to contribute to Canada's success, as well as those who question our ability to deliver concrete benefits. It is absolutely clear that the onus is on TMX Group and LSEG to demonstrate that the opportunities for growth and success are clearly understood, and that we execute our plans post-merger to achieve the desired results.

[1] By way of a numerical example, if Canadian directors constitute 7 of a 15-member board before the change, and the change results in 9 of those 15 directors continuing as directors, with 6 new directors joining the board, Canadian directors must constitute at least 4 (7/15 of 9) of the new 15-member board.

Over the last decade, as exchanges demutualized and, in many cases, their parent groups became for-profit publicly traded companies, we have seen a rapid consolidation of exchange ownership. NYSE-Euronext and NASDAQ OMX are two examples of international consolidation that have created a new class of exchange groups that are able to compete on multiple continents while catering to a global audience of investors, issuers and other market participants. These are our competitors in North America. Globally, we are now seeing a new wave of consolidation in the exchange industry, including the proposed combinations of Singapore Exchange and Australian Securities Exchange and of Deutsche Boerse and NYSE Euronext. These mergers have allowed exchange operators to combine their resources to achieve the economies of scale required to make significant investments in technology and other areas needed to serve issuers, investors and other market participants at competitive prices, while extending their reach internationally.

Fundamentally, we believe that a trans-Atlantic merger between TMX Group and LSEG contributes directly to Canada's success. By spreading our cost base across a broader organization, our ability to develop and deploy industry-leading innovations, new products and winning technology quickly and efficiently for the benefit of our customers will be significantly enhanced. Access to an international and well-established sales and business development organization will give TMX Group enhanced ability to attract new listings and investors to Canada. And, as these investors drive up activity, deepen liquidity and increase the overall capital pool available for Canadian public companies, our exchanges can even better serve the market and help fuel expansion and innovation.

These are not simply notional aspirations, they are clear and achievable objectives. TMX Group and LSEG have partnered in the ownership of exchange platforms, technology deployment and other strategic initiatives in the past. The two groups are entering into this merger as partners that know and trust one another, and with whom each has a proven track record.

Ultimately, as we work to deliver on the benefits described above, it is expected that new professional development, employment and growth opportunities will emerge for those operating in the financial services sector. With increased activity noted earlier, we expect to see an expanded eco-system of legal, financial, academic and advisory services professionals, among others.

Critically, all of this will elevate Toronto's profile on the global stage, directly contributing to the goals of the Toronto Financial Services Alliance and of the Ontario Government to make Toronto a world centre for financial activity.

As a final point, we would like to address the mining sector. There is no doubt that Canada enjoys a premier reputation on the world stage as "the" destination for small, mid-sized and large corporations to raise the funds required to fuel their growth. This merger is intended to further expand this leadership position. The new activity that we expect to generate on our Canadian markets will facilitate access to capital for smaller capitalized and early stage corporations to fund important new exploration and development projects, and will allow larger capitalized corporations to raise the financing required to fund large projects and strategic initiatives. This is our goal, and one of the fundamental reasons we engaged in this merger.

CONCLUSION

From the onset of our discussions in 2010, both TMX Group and LSEG were squarely focused on the potential benefits that this transaction would bring to Canada's capital markets, participants and investors. As exchange operators, it is our duty (and in many cases our clear responsibility) to account for the impact of our decisions on our stakeholder groups. Furthermore, given the nature of our business, our success is tied directly to the success and activity level of the sector and the economy we operate in. Therefore, benefits to Toronto, Ontario and Canada are fundamental to our long-term business success.

As a result, and as stated in our opening remarks on March 2nd, we believe that we have formed a partnership with LSEG that protects Canada's regulated exchanges for the future, positions them to make an even greater contribution to Canada's success and enhances the role TMX Group's exchanges will play in the international arena.

The risk in this transaction is not about the nature of the partnership or the structure of the agreement, but rather it is about our execution capability as a company. Can we, as a combined entity, effectively integrate, cross-sell and execute our strategy? The assurances we can provide are based on our respective track records.

TMX Group, over the years, has united the ownership of Canada's leading equity, derivatives and energy exchanges under one roof. Under our management, these exchanges have flourished and grown and today are recognized as leaders in their respective sectors.

Similarly, LSEG has worked hand-in-hand with Borsa Italiana since their combination in 2007. Today, Borsa Italiana represents just under 50% of LSEG revenues and is recognized by Italian authorities and financial leaders as a success story.

It is this track record – of keeping promises, meeting commitments, achieving stated goals – that we submit as evidence of our ability to deliver on the commitments made before this Committee.

In closing, we would once again like to thank the Committee for its time. Please do not hesitate to contact us should you require further information.

Yours sincerely,

Thomas Kloet **Xavier Rolet**

SCHEDULE A

QUESTIONS AND ANSWERS ABOUT THE TRANSACTION

1. Who will regulate the new exchange group?

- This is a merger at the holding company level. Each of the exchanges remain separate entities, with its own local board and governance structure
- Therefore, TMX Group exchanges will continue to be regulated by the Canadian securities regulators
- For example, continued oversight, with full existing powers and authority continue to reside as follows:
    - TSX – OSC is, and will be, lead regulator
    - MX and CDCC – AMF is, and will be, lead regulator
    - TSX Venture Exchange – ASC and BCSC are, and will be, co-lead regulators
    - NGX – ASC is, and will be, lead regulator

2. What regulatory impact will this merger have on listed issuers?

- None whatsoever
- Issuers on Canadian exchanges (i.e. TSX or TSX Venture Exchange) will see no change to their processes or regulatory relationships and obligations as a result of the merger
- If Canadian issuers elect to cross list in any of the new markets within the London Stock Exchange Group, they will continue to be regulated in Canada and will assume incremental regulatory obligations in the new jurisdiction; this is true today

3. Will the Financial Services Authority (FSA) in London have any direct authority over TMX Group exchanges or Canadian listed issuers?

- No
- There is no extension of FSA oversight over Canadian exchanges or Canadian listed issuers
- For example, London Stock Exchange Group currently includes Borsa Italiana based in Milan, Italy, and the FSA exerts no authority over Italy's domestic markets or listed issuers
- Every Canadian exchange's existing regulatory oversight will remain unchanged. The applicable securities commissions will continue to oversee exchanges as they do today

4. Will the parent company be subject to regulatory oversight in Canada?

- The parent company will provide undertakings to the OSC, AMF, BCSC and AMF regarding the operations of the Canadian exchanges

5. What if the merged company enters into another deal? Wouldn't balance shift unfavourably away from Canada?

- We will be partners in one of the world's premier exchange groups. That is a very strong position
- We may welcome other partners to our group in the future

- Through our proposed merger agreement, and the various undertakings we are providing to Canadian regulators and governments, we will be partners at the negotiating table in those talks and we will have the influence required to make the right arrangements
- A board with a strong contingent of Canadian-based directors and led by a Canadian Chair would be involved in all future negotiations
- The OSC and AMF will have approval rights on any future transaction that results in a change in control of the new holding company
- The OSC maintains its public interest jurisdiction over how the TSX carries on business and has the power to revise or revoke the TSX's recognition order at any time

6. Today, Canadian markets provide a highly successful venue through which Canadian corporations and SMEs can raise funds to finance growth. Would this merger affect this or change its efficiency in any way?

- As new capital and activity comes to Canadian markets from overseas, we expect to be able to provide a larger capital pool and reduce the cost of capital for Canadian companies in all sectors, including SMEs
- The merger will enhance the capability of the Canadian markets to serve Canadian listed companies

7. Will Canadian listed issuers automatically become listed on London Stock Exchange?

- No
- There is no change whatsoever to the listing of a Canadian issuer
- Just as it is today, it will be up to the issuer to decide if it wants to cross list on any of LSEG's exchanges
- At that time, the issuer will have to follow the local rules and regulations to quality for a listing, but will continue to be regulated in Canada in connection with its Canadian listing
- Of course, post-merger, the new group will be able to facilitate this process subject to regulatory approval in order to facilitate access to a European listing if an issuer elects to pursue one
- Likewise, LSE listed companies will be able to elect to list on a Canadian exchange as a North American gateway to investors

8. How does this merger benefit the Canadian economy?

- The core benefits of this merger are to heighten Canadian capital markets activity; more investment, deeper pools of liquidity, better issuer access to funds, broader investment opportunity and lower cost of capital to generate innovation and growth
- In addition, each of Toronto, Montreal, Calgary and Vancouver gain strong global and business leadership positions within the new merged group
- The effects of this enhanced activity include:
    - More funds for Canadian companies to grow, innovate and prosper
    - More activity in Canada's key financial centres, driving jobs in service sectors and in companies raising capital
    - More awareness and brand recognition of Canadian capital markets on the world stage
    - Improved competitive position to attract foreign issuers to list in Canada
- Ultimately this will create opportunities for more and higher paying Canadian jobs

9. Canada is already the world's leading destination for resource companies to raise capital. How does this merger affect that global leadership position?

- It enhances it
- All of the existing strengths within Canada for the resource sector remain: know-how, investor awareness and technical expertise
- The merged company will serve its issuers with expanded global reach and scope
- In addition, by increasing the visibility of Canada on the international stage and attracting greater sources of international capital to our markets, it is expected that this sector will benefit through increased listing of global companies

10. What will be the impact on listing fees (for SMEs in particular)?

- Listing fees will continue to be governed by market forces
- TSX and TSX Venture Exchange have created very successful businesses which have proven attractive to Canadian and international companies
- Competition for exchange listings worldwide is intensifying, due to new entrants in Canada and elsewhere. Staying competitive in this business, including in listing fees, is a key for continued success

11. Will the merger result in a migration of listings – and jobs – to London over time?

- The merger is expected to attract new investors and capital to Canada's public markets, expanding the funding capabilities of Canadian issuers through TSX and TSX Venture Exchange and potentially reducing the need for them to seek a foreign listing to tap international investors
- Companies themselves choose where to list on the basis of where they think their capital markets objectives are best met
- The exchanges will remain separate, and continue to be regulated in their respective jurisdictions
- A company in search of additional capital may choose to avail itself of enhanced connectedness between London, Milan and Toronto. This will help efficiently serve listed companies on any of the exchanges in the group, and will create enhanced activity and jobs in Toronto

12. Is LSEG the best merger partner for TMX Group?

- LSEG and TMX Group have complementary strengths and their combined businesses will have a broad reach in both Europe and North America
- The merger will create a new global exchange leader, well positioned to grow from a position of strength
- The "local mind and management" and merger of equals structure of this transaction would not have been possible in a combination with another leading exchange
- If TMX Group merged with Nasdaq or NYSE which are significantly larger companies, TMX Group shareholders would own much less of the combined business
- In that case, TMX Group could not have commanded the undertakings that are being provided here — to maintain a strong co-headquarters in Toronto, meaningful global mandates in Canada, and a balanced participation of Canadian residents in management roles

- The merger will allow TMX Group to partner with LSEG in any further industry consolidation
- The size and scope of the combined organization will put the Canadian business in a stronger position when it comes to negotiating the roles of the Canadian business and management in any future consolidation transaction

13. Why is TMX Group not acquiring LSEG?

- The transaction is not an acquisition by either party; it is a merger of equals
- A merger of equals combines the strengths of both TMX Group and LSEG as partners
- The transaction was structured as a share for share exchange rather than as a cash acquisition of one of the companies by the other, which leaves the combined company with a strong balance sheet free of additional debt, allowing it to exploit future growth opportunities
- The transaction brings together two companies of comparable size
- The resulting share ownership reflects their relative market capitalization and would have been the same regardless of the structure of the transaction
- The merged company will be widely held; the jurisdiction in which its shareholders reside will not result in decisions being made differently. TMX Group already has a significant percentage of its shares held outside Canada, but this has not resulted in any loss of Canadian presence or influence on its businesses

14. Will the regulation of CDCC and CDS change as a result of the merger?

- The regulation of CDCC will not change as a result of the merger, except to add new positive governance protections
- After the merger, the board of CDCC will be required to have at least 50% of its directors be resident in Canada and independent, therefore ensuring the role of independent Canadians in the governance of CDCC; at present there is no such requirement
- The proposed merger does not in any way affect control of CDS
- TMX Group does not currently control CDS. Rather, it is controlled by the Canadian banks.
- TMX Group nominates only 2 of the 15 directors on the board of CDS
- The merger will not in any way affect Canadian control or regulation of CDS