Ian C.W. Russell FCSI
President & Chief Executive Officer

November 9, 2011

British Columbia Securities Commission
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P.O. Box 10142, Pacific Centre
Vancouver, BC V7Y 1L2

Alberta Securities Commission
Suite 600, 250-5th St. SW
Calgary, AB T2P 0R4

Ontario Securities Commission
20 Queen Street West, Suite 1903
Toronto, ON M5H 3S8

Autorité des marchés financiers
800, square Victoria, 22e étage
Montréal (Québec) H4Z 1G3

Dear Sir and Madam:

Re: Comments on the Proposed Acquisition of TMX Group, Alpha and CDS by Maple Group Acquisition Corporation

The Investment Industry Association of Canada (IIAC) is pleased to provide comments in response to the proposed acquisition of TMX Group Inc. (TMX Group), Alpha Trading Systems Limited Partnership and Alpha Trading Systems Inc. (collectively, Alpha) and The Canadian Depository for Securities Limited and CDS Clearing and Depository Services Inc. (collectively, CDS) by the Maple Group Acquisition Corporation (Maple) ("The Proposed Acquisition"). The Proposed Acquisition represents a significant consolidation of ownership of the trading, clearing, depository and settlement infrastructure in Canadian capital markets, and results in the reconfiguration of Canada's clearing infrastructure in terms of the amalgamation of cash and derivatives clearing and settlement, and conversion of the cost-recovery based clearing and settlement into a for-profit pricing structure.

The Canadian capital markets have functioned effectively and on competitive terms prior to the recent financial crisis, and before the two recent independent initiatives to acquire trading and clearing assets -- the LSE bid for the TMX Group, and the Maple bid for the TMX Group, Alpha and CDS. High standards of professionalism, effective trading and clearing infrastructure in capital markets and a sound regulatory framework have contributed to liquid traded markets for investors and well-functioning new issue markets for large and small companies.

The Current Landscape

The 180 IIAC member firms that comprise the Canadian securities industry play a critical role in Canadian capital markets, executing transactions on a principal and agency basis on behalf of retail and institutional clients in debt, equity and derivative securities. These investment dealers are directly involved in their capital formation through the origination of debt and equity offerings in public and private markets, and distribute these securities across national and international markets.

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In 2010, the annual dollar value of traded securities in debt and equity markets totaled about $8.3 trillion and $2.1 trillion respectively, translating to a daily turnover of $33 billion and $8 billion. Trading in debt and equity markets in Canada has doubled in the last eight years.

The Toronto Stock Exchange (TSX) accounts for 60% of equity trading in TSX-listed companies (2,144 listings), with the four alternative trading systems (ATSs) accounting for the residual trading activity, and the TSX Venture Exchange (TSX-V) accounts for nearly all trading in listed venture companies (2,424 listings). Efficient, transparent and cost-effective execution of traded equity securities on the two primary equity markets, TSX and TSX-V, are vital to the competitiveness and liquidity of secondary markets, and to the effectiveness of the capital-raising process for large and small businesses in Canada.

Cash, debt and equity securities clear and settle though the CDS settlement system and depository. Transactional volume cleared through CDS has increased seven-fold since 2005 to an average of 1.5 million exchange trades daily. CDS is a utility for cash securities clearing, settlement and depository, owned by the participating dealers, banks and TMX Group with the pricing of clearing and settlement services based on a cost-recovery model. A recent study commissioned by CDS, concludes that its clearing and settlement pricing was ranked second in global competitiveness (behind the Depository Trust and Clearing Corporation (DTCC) in the United States). DTCC operates on a cost-recovery basis.

CDS is subject to comprehensive oversight from the Bank of Canada and provincial securities commissions, and recognized as a systemically important institution in Canada's *Payment Clearing and Settlement Act*. CDS has evolved into a highly disciplined organization with efficient, well-functioning and secure clearing and settlement systems for debt and equity securities. Thomas Murray, a recognized rating agency specializing in assessing creditworthiness and soundness of capital markets infrastructure, including depositories, has accorded CDS an AA credit rating, the highest rating for any clearing and depository system in the world.

The Proposed Transaction

Maple has announced it will acquire 100% of the outstanding shares of TMX Group that will establish the TMX Group as a wholly-owned subsidiary of Maple. Following acquisition of TMX Group, Maple will acquire Alpha, and integrate operations within the TMX stock exchange infrastructure. As a final step, Maple will acquire CDS. Once these proposed transactions are completed, Maple will integrate the CDS clearing and settlement infrastructure into the Canadian Derivatives Clearing Corporation (CDCC), already a subsidiary of TMX Group.

These multiple corporate transactions will result in the full integration of trading, clearing and settlement within Maple. This consolidation of trading and clearing infrastructure will have implications for the efficiency, cost and competitiveness of traded secondary markets in Canada.

Equity Trading

Maple will provide trade execution for an estimated 80% of trading in listed equities. The Maple Board of Directors will determine the pricing mechanisms and pricing for share execution on the various stock exchanges and ATSs, and the transparency of this pricing information. Maple has proposed single-tier

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execution fees as pricing protection, arguing alternative trading of the NYSE and NASDAQ stock exchanges ensures trading fees for inter-listed shares are competitive. A single pricing tier enables non-inter-listed shares to benefit from competitive pricing strategy. Further, the entry of another ATS into the Canadian market, or expansion in market shares of the remaining three ATSs (Chi-X, Pure and Omega), will impose some pressure to keep trade execution costs competitive and trading access open to market participants.

Transparency of the pricing process, reliance on single-tier pricing, and a robust ATS market will go a long way to keep trading fees set by TMX Group to be fair and reasonable. Maple should also take steps to ensure its independent Board members are involved in decisions related to execution fees, and provide market participants with full disclosure of mechanisms to determine trade execution fees.

Clearing and Settlement

Most Canadian debt and listed equities clear and settle through CDS. High infrastructure costs and onerous regulatory requirements make it difficult to establish a viable alternative depository and clearing system. Second, offshore clearinghouses are not a viable option. The U.S. counterpart to CDS, DTCC, clears only the 164 Canadian-based securities inter-listed on the Canadian and U.S stock exchanges (out of 4,500 listings on the TSX and TSX-V). Most listed Canadian companies, particularly smaller firms, would not meet the listing requirements for the major U.S. stock exchanges, even if interested in offshore clearing alternatives.

The lack of alternative clearing systems in the marketplace to ensure competitive pricing, together with comparatively low pricing for clearing of cash securities, makes it imperative that Maple has appropriate governance mechanisms to achieve fair and reasonable pricing for clearing services, and provide the full disclosure of methodology for determining clearing fees.

The prices for CDS clearing and settlement services are at present determined on a cost-recovery basis, with fees set residually from estimated clearing volume and operating cost. Fees have typically been set too high for cost-recovery pricing, reflecting larger-than-expected trade volume and over-estimated operating costs. The high fixed cost component in clearing operations has meant per unit operating costs decline as volumes increase. As a result, dealers are reimbursed for excessive pricing under the cost-recovery model in terms of price reductions, volume discounts and rebates, and new services. Excess revenue of $14 million was returned to participants last year.

Maple has stated that fees charged for clearing services will be benchmarked against fees charged by other clearing entities. Given relatively low pricing of the existing CDS system from the cost-recovery model, different operating structures of global clearing systems, and declining per unit operating costs, it is incumbent on Maple to provide full disclosure of the proposed fee-setting mechanism to demonstrate fair and reasonable pricing to market participants. The low clearing fees at CDS, and higher fees on many other clearing firms in global markets, leave scope for significant fee increases within the proposed benchmarking framework. Moreover, fair pricing argues for a *declining* schedule of clearing fees in tandem with clearing volume increases and cost synergies.

Further, the independent directors of the CDS and CDCC Boards, together with the market participant advisory committees (MPACs), should be engaged in fee-setting decisions related to clearing services.

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Finally, Maple should provide a detailed explanation of any changes to the risk model in the clearing system, particularly if proposed changes would interfere with participant access to the clearing system.

Maple has stated the integration of the cash and derivatives clearing and settlement systems, CDS and CDCC, will yield significant benefits for market participants. These benefits from "cross-margining" securities through offsetting transactions within the clearing system, and cost synergies from the integration of clearing infrastructure, should be properly discounted when considering the merits of the acquisition. The integration of the cash and derivatives clearing systems will be a complicated and lengthy process, with potential benefits realized well beyond the acquisition date of CDS, reflecting the sophisticated technology involved in clearing and settlement, and different risk models at the two clearing organizations.

Market Data

The integration of trading and clearing systems will give Maple considerable leverage and control over the sale and distribution of equity market data. Timely information on share prices across the market is critical for dealers to meet regulatory obligations for best price, and to develop portfolio trading strategies. The Canadian markets provide scope for trading venues to charge excessive prices for market data, mainly reflecting regulatory requirements that compel registered dealers to purchase data from all marketplaces and impose no minimum thresholds on ATSs to charge for market data.

A study commissioned by IIAC in June 2011 compared price competitiveness in Canada with other major markets and concluded Canadian trading venues have priced market data on aggressive terms. For example, in the past three years, the prices for market data have doubled for market participants, as ATSs have escalated fees for market data, and the TSX and TSX-V have held data fees relatively steady, despite a 40% decrease in traded market share.

Maple should provide full disclosure of the methodology to determine market data fees. Further, the Maple Board should involve its independent directors, and consult with the MPACs in decisions to set data fees.

Yours sincerely,

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