

June 27, 2011

Delivered by E-Mail: jstevenson@osc.gov.on.ca

Secretary of the Commission
Ontario Securities Commission
20 Queen Street West
Toronto, Ontario
M5H 3S8

Dear Sirs:

Re: Request for comment on the TMX Group Inc. and TSX Inc. Proposed Transaction with the London Stock Exchange Group PLC

I am making this submission on behalf of Signature Global Advisors, an investment management group that manages over \$30 billion on behalf of Canadian individual and institutional investors. Signature is a division of CI Investments Inc., Canada's third-largest investment fund company with \$75.5 billion in assets under management as of May 31, 2011. As Chief Investment Officer of Signature, I lead a team of more than 30 investment professionals who are responsible for a number of global and Canadian investment mandates. We are a Canadian-based group with global expertise and perspective. We believe that the proposed transaction has significant implications for Canadian capital markets and, by extension, for the savings and investments of all Canadians. We appreciate this opportunity to provide our comments to the Commission on the proposed merger of the TSX and the London Stock Exchange Group, in response to your Request for Comments published May 13, 2011.

We have chosen to focus our submission on the questions posed by the Commission in its Notice and Request for Comment, which we fear have been overlooked by other market participants .

Question 17: Do commenters believe that there are any issues associated with foreign ownership and control of Canadian clearing and settlement systems and, in particular, systems that are systemically important to the Canadian financial markets? If so, what measures should be considered to address these concerns?

The proposed transaction, like many other exchange transactions around the world, is taking place in advance of important policy decisions by securities regulators, bank superintendents and central banks. Commercial interests in exchange and clearing businesses are leaping into a policy vacuum in hopes of capturing economic advantage and influence over imminent and unprecedented changes in critical market infrastructure. This circumstance of a financial infrastructure in flux results from the financial reform agenda of the G-20, which is embedded in the Dodd-Frank Act and European market infrastructure regulation. More precisely, the G-20 commitment to implement central clearing of all standardized over-the-counter derivatives by the end of 2012 is creating a frenzy of pre-positioning activity.

My concern with the TMX-LSE transaction centres on the issue of ownership and design of the future clearing and settlement system for cash and derivative securities in this country. Four fundamental policy questions relating to the design of Canada's central counterparty (CCP) must be answered before the LSE-TMX transaction, or any other involving market infrastructure, can be approved. They are:

1. Will the CCP be domestic or foreign in respect to ownership and physical location?
2. Will the CCP be vertically integrated with an exchange or stand-alone?
3. Will the CCP be a not-for-profit industry utility or a for-profit enterprise?
4. How will the CCP be regulated?

These are complex questions that are being tackled in many countries. Canada needs to move quickly in setting policy objectives and putting them into practice. At Signature Global Advisors, we believe these policies should be guided by the following principles: domestic control over systemic elements, safety and soundness of the system, design efficiency, open architecture to foster competition where possible and strong regulation to prevent abuses of natural monopolies. Based on these principles, we arrive at the following answers:

Answer 1:

It is unacceptable to have foreign ownership of the future central counterparty to all Canadian derivative transactions. This organization will undoubtedly be a systemically important Canadian institution housing extraordinary volumes of credit, interest rate, equity, currency and commodity risk. Systemic importance infers that the CCP will be taxpayer insured and a contingent liability of the Canadian government. Accordingly, the Canadian Derivatives Clearing Corporation (CDCC) should be sold by the LSE as a condition of regulatory approval. We suggest that the Bank of Canada clarify this issue. Canadian ownership should be a combination of users and government.

Answer 2:

Signature Global Advisors advocates a domestic settlement, clearing and CCP that is stand-alone, providing non-discriminatory access to all exchanges and members. The vertical model (integrated exchange and clearing) will incent risk-taking in the CCP unit to drive volume and profitability in the exchange unit, which is wholly unacceptable.

Answer 3:

We firmly recommend against creating a new for-profit monopoly at the centre of our financial infrastructure. This mistake would be costly to undo and would represent a tax on all future users. A regulated return on capital model that permits ongoing investment would be ideal. Experience has taught us that financial institutions struggle to balance the tension between profit-seeking and risk management. The new CCP should have a single mandate from the start – risk management.

Answer 4:

The CCP should be regulated tightly by the OSC, AMF, OSFI and the Bank of Canada, in concert with global counterparts. This said, the specific organizational jurisdiction is not our area of expertise.

Question 18: Should trades or other transactions conducted on a Canadian marketplace be required to clear and settle through a clearing agency recognised in a Canadian jurisdiction?

Yes. However, a temporary use of foreign infrastructure may be required while our system is under construction.

Question 19: Are there any other clearing and settlement issues that are raised by the Proposed Transaction?

Research by the Bank for International Settlements demonstrates the considerable collateral netting benefits of a clearinghouse that services multiple asset markets. Given the industry and public interest in developing an efficient market infrastructure in Canada, it is clear that CDS, the CDCC and any future derivative clearinghouse should be amalgamated. Efficiency of operation and integrated system connectivity with CCP members are also important considerations that support amalgamation.

Question 20: Is TMX Group, TSX, or any other part of TMX Group a strategic asset or infrastructure? If so, please explain the criteria by which you make such an assessment.

1. The exchange on its own is not strategic, but in the hands of dominant domestic financial institutions, there is a risk of an excess concentration of power over capital-raising channels.

2. Natural monopoly elements of the exchange need better supervision. The tendency toward abuse of market power can be readily seen in the exchanges' unreasonable market data fees.

Question 21: If so, what implications should this have for the Commission's review of the Proposed Transaction? Why?

The fear of reprisal from Canada's most important equity and debt capital providers has silenced dissenting opinion from investors and issuers in the matter of the TMX transaction. This is in itself ought to be a warning sign that Canada faces a problem of concentration of power. Regulators take heed. We believe that measures to defend competition and protect consumers from monopoly power should be prime considerations as this critical market infrastructure takes shape.

Respectfully submitted,

Eric Bushell
Chief Investment Officer
Signature Global Advisors