Caldwell Securities Ltd.

Independent Investment Advisors

June 28th, 2011

Mr. John Stevenson
Secretary of the Commission
Ontario Securities Commission
20 Queen Street West
Toronto, Ontario
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E-mail: jstevenson@osc.gov.on.ca

RE: TMX Group Inc. and TSX Inc. Proposed Transaction ("TMX") with London Stock Exchange Group PLC ("LSE")

Dear Mr. Stevenson,

Despite the significant rhetoric surrounding potential TMX/LSE/Maple transactions, there has been very little in the way of overall policy discussion regarding Canada's capital markets.

Absent a coherent overview and clear goals, our capital markets have already become a "bundle of unintended consequences" with myriad regulations attempting to deal, after the fact, with a wide array of conflicts.

In short, our lack of policy has resulted in regulatory strangulation (particularly of independent firms) from efforts to address both the massive concentration of, and resulting conflicts within, the Canadian investment industry.

The TMX/LSE/Maple issue provides a window on these broader issues.

The primary role of a Stock Exchange is that of providing access to capital and liquidity. These roles are central to economic growth in the free enterprise system. In effect, an

Exchange democratizes capital. I believe we have forgotten that critical role in much of the developed world.

Determining the price at which a trade will take place is the primary function of an Exchange. This "price discovery" is typically determined by buyers and sellers coming together to show their interests. Anything which potentially can have an impact on the validity of this price discovery process should be considered highly suspect.

Examples are: a multiplicity of markets (fragmentation – ATSs – thinned out price discovery on major markets invites manipulation), trading against client orders (internalization), trading away from regulated markets (dark pools), and even high speed trading and many forms of derivative trading.

Exchanges should, as a consequence, be neutral, conflict of interest free, environments not controlled by any one sector of investors or interests.

A publicly owned Exchange, with independent governance, is the model preferred by investors who understand capital markets. Having only 20% owned by the public, as proposed by the Maple group, is a sham. It is simply remutualization with window dressing.

Potential conflicts ALWAYS become real conflicts.

Exchange ownership by a small group of large proprietary traders and internalizers is rife with conflicts.

In the past, a diversified broker cartel ran the Toronto Stock Exchange as a utility for their own interests and those of the public. I know, I was part of that cartel. This newer, smaller cartel will function in much the same manner but with different and far more conflicted interests.

For example, the price discovery process determines the profits of their proprietary trading operations as well as their internalization activities. Therefore, a massive conflict exists and in practice, a “Chinese wall” or functional separation is rarely fully effective. Further, when price discovery becomes suspect, investors leave.

If these few institutions are so concerned about Canadian control then why not approve the TMX/LSE proposal and spend a fraction of their Maple commitment on buying U.K. or Arab held shares in order to make the new entity Canadian controlled: that is, think bigger and have an international platform for expansion. Canadians would then control the majority of TMX/LSE shares – if nationalism is indeed the goal.

I believe the above point illustrates Maple’s real intent. It is about control, not Canada.

As a business, Maple's pricing will be directly controlled by their biggest customers and financial institutions are notoriously cheap. What capital will be available for expansion and system upgrades? Will there be preferential pricing?

What about access and costs for independent firms using the clearing and settlement facilities of CDS?

The "four pillars" (banks, brokers, trust companies and insurance companies) no longer exist. There would be only one now but for a strong insurance lobby. There are only two pillars at present. There are now no independent trust companies, no independent auto leasing companies, no independent mortgage insurance companies and the investment industry is 80% bank controlled and the mutual funds industry is now bank dominated.

My question from the 1980s, when we started down this path, was: "How powerful do we want the banks to be?" No one thought to answer that question.

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The economic impact of our current market structure and lack of any strategic policies is already upon us.

Economic benefits to Canadian listed companies, the real economy, are superior with the TMX/LSE proposal. Canadian companies will have greater exposure to wider sources of capital with that alternative, but that is a separate topic.

Regarding unintended consequences, we now appear to be continuing this process. We need a broader strategic view of our capital markets and their direction, which should also include reviewing regulatory strangulation. An opportunity exists at the present time to build the “Switzerland of North America”. We should grasp that possibility.

If the Maple deal is successful, a strategic examination will no longer be relevant. We will have already cast our future in stone as we did 30 years ago when banks were allowed to control yet another financial sector.

If the Maple proposal prevails, then it would be reasonable to request a divestiture program down to 40% for the group, over a period of time. Three years might be appropriate.

Access to trading, clearing and settlement facilities on the same cost basis as the Maple cartel must also be insured. This would include a no volume discount feature.

A majority of independent Board members, outside the Maple cartel, must also be required.

The independence of an Exchange must be insured at various levels from governance to trading compliance.

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It is also reasonable for the Maple group to post a significant bond in order to compensate TMX shareholders in the event their bid is not approved by regulators. This is reasonable, given their active campaign to thwart the TMX/LSE proposal.

Yours truly,

Thomas S. Caldwell, C.M.
Chairman & CEO

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