

Saskatoon Chamber of Commerce

Remarks for Richard Nesbitt

September 5, 2007

Thank you and good afternoon everyone

This is my first trip to Saskatoon since becoming CEO of the TSX Group, so I'm long overdue and I'm delighted to be here.

What an extraordinary growth centre this city has become.

And I suppose the growth is long overdue, too.

With the growth come challenges, of course, and you can see them next door in Alberta

I mean, how unlikely is it to have a city where home prices have been rising faster this year than anywhere else in the country but they're still so affordable that people would rather live here mortgage free and commute to Alberta than continue to pay Alberta mortgages.

Saskatchewan, of course, has been attracting a lot national attention.

And well it should

For a number of reasons, all the stars are finally aligning in favour of this city and this province

That matters to us at TSX Group because some of our important issuers are centred in this region. In fact, there are 22 Saskatchewan-based companies listed on Toronto Stock Exchange and TSX Venture Exchange – from big companies that are household names to smaller companies like JNR Resources, Foran Mining and Agtech Income Fund. Together these 22 companies have a combined market capitalization of more than \$57 billion.

So when you do well, it helps us do well.

And when we do well, I might add, it helps Saskatoon and Saskatchewan in return – and the whole of the West – do well also.

So many of my central goals this afternoon is to show you what we are doing and how it will not only be important to building on your success, but can be integral to extending the pool of risk capital on which this region can draw and extending the reach of the industries you're building.

Let me start with the way the stars are aligning

Wheat prices are just now reaching levels they haven't seen since the 1970s, as are other feed grains and oil seeds.

But what's happening now isn't based on the vagaries of the weather, as it was in the 70s.

This isn't based on El Nino and other weather glitches, though the weather has added a push this year to what was already happening.

It isn't even based on ethanol, and the political and policy reasons that are driving the conversion of corn to fuel.

This is based on demographics – the rapid emergence of an Asian middle class, especially in the world's largest countries, China and India, that wants more meat in its diet and can afford it.

Driven by this huge surge in global demand, farm receipts in the first six months of this year are at record levels, up nearly 10 per cent from last year. Revenue from wheat is up 66 per cent.

That's not likely to change with the weather, or with policy

And, of course, one of our important TSX agri-business issuers – Sask Wheat Pool, now in the process of rebranding itself – is part and parcel of this transformation.

That's one way we and you are linked in the agricultural revolution now underway.

A couple of other TSX issuers – Potash Corporation and Agrium – involve us in another side of this revolution.

It doesn't hurt at all that the Saskatoon region contains the world's largest deposits of potash.

Let's add in another issuer, Cameco.

Uranium prices have only recently reached and surpassed levels they haven't seen since Three-Mile Island, nearly 30 years ago (1979).

That's because for three decades, nuclear was moribund as an industry

Now it is booming world-wide and – wouldn't you know it – the Saskatoon region is at the centre of one of the world's great uranium production areas.

That can only expand as the number of new nuclear plants grows

After years when you had to pay people to build them, the number of Candu nuclear plants built or under construction around the world is now up to 48.

China, including its two Candu reactors, has 10 reactors and is proposing 50 more. Another 100 plus are proposed around the world, including in Ontario.

Meanwhile, the uranium that was stockpiled in the 70s and the 80s is nearing depletion

Not surprisingly, prices have soared and if some of that involves speculators getting there ahead of the world's utilities, the simple reality is that the momentum that has now built up behind new nuclear construction can only drive prices upward in the years ahead.

I have not included in that tally of proposed reactors the possibility of nuclear power providing the energy needed to fully exploit the oil sands of both Alberta and, now, it seems, Saskatchewan.

A private company has already applied to the Canadian Nuclear Safety Commission to prepare the site for a nuclear facility in the Peace River oil sands area.

Recently, too, Saskatchewan has seen companies buy land positions to delineate potential oil sands reserves in this province.

And this region is already in the game through the heavy oil upgrader in Lloydminster, now being expanded substantially by Husky Energy, another TSX issuer.

Wheat, uranium, potash, heavy oil, oil sands – you have here the basis of an extended period of growth

You also have the basis for spinoff industries surrounding these resources, including building on what you have already done to make Saskatoon the centre of agriculturally based biotech.

And you have the strong, recognized public companies – Sask Wheat Pool, Potash Corp, Cameco Husky – around which to build clusters of excellence based on these resources.

So you can see why we feel very much a part of what is happening here and believe we have a contribution to make to your future.

That contribution is based on the pivotal role of the Canadian capital markets

It is TSX's job to unite risk capital – from this region certainly but from across Canada and abroad as well – with the entrepreneurial ideas now bubbling out of this city and across the Prairie.

It is risk capital that will extend the regional, national and global reach of Saskatoon, so that your innovations in agriculture, in biotech, in energy and other sectors will provide the basis for a prosperity that lasts far beyond our span of years.

It matters to you, then, what we are doing and how well we are doing it.

So let me turn to what we have been doing

The working title for my remarks today is The New TSX: Reach for Opportunity.

Toronto Stock Exchange, as you know, has been around for a long, long time – since 1852, in fact – which makes us older than the two oldest Canadian banks, older than the CPR, older than CN, older than the Crow Rate.

But we are no longer just Toronto Stock Exchange. There is very little about us, including our name, that is not a product of the 21st century, our technology, our organization, our position in global markets, our position as one of the highest quality exchanges on the planet.

Indeed, much of what we are is the result of actions we have been taking this year, and by the end of this year we will be quite transformed even from what we were a year ago. More than an exchange reliant on equity trading, TSX Group is in the process of creating a North American cash and derivatives market across multiple asset classes, including equities, fixed income, and energy.

What we are doing is driven by the reality of the competition we face, both globally and in terms of profitable niches in Canadian markets.

Our success will dictate whether we have the kind of liquid, high quality market you need to raise money and reflect the advances you are making in your business.

We intend to remain the central point of price discovery in the Canadian market and we intend to fight any signs of the fragmentation that was so damaging to Canadian capital markets during the tech boom of the 90s.

Let me start with our global position

TSX Group exchanges are among the best places in the world to raise money.

We are the seventh largest exchange group in the world by market cap but we punch well above that weight.

In the first six months of this year, we were fifth in the world as a source of capital.

But over the past five years, only two exchange groups in the world were the source of more capital – NYSE-Euronext and London.

London's numbers, I might note, were inflated by international companies raising money there to buy out Canadian shareholders in companies like Falconbridge.

However, in terms of specific niches – mining and oil and gas exploration especially – we are the leading source of risk capital for projects on every continent.

That is a good example, by the way, of how we have benefited from our long history supporting Western Canadian resource companies and why we are so focussed on building on that history.

Apart from our focus on our international mining and oil and gas franchises, we are also focussed on the small and medium sized enterprise sector in the U.S.

That, too, is a strength we developed in Canada.

Now we are finding that smaller U.S. companies are beginning to recognize that we have something to offer that they can't get from big U.S. exchanges that are more interested in mega-companies than in helping smaller U.S. companies emerge and grow.

We are now in the middle of a nine city tour of U.S. cities spreading our message.

As a result of that and our earlier efforts, we now have more than 120 U.S.-headquartered companies listed on Toronto Stock Exchange and TSX Venture Exchange – more by a considerable margin than are listed on the two exchanges in London.

The battle for listings is one important dimension of the competition we face.

Every exchange with any kind of global reach is out there competing too.

The competition is equally fierce on the trading side and that is especially true in trying to win trading volumes for stocks that are inter-listed on both Canadian and U.S. exchanges – stocks like Potash Corp and Agrium, for example.

Now we take over 50% of the volume of trading and, but for a couple of issuers like RIM, which has a big U.S. ownership base, we would be higher still.

The way we have been able to build market share is based on three factors.

One is world-leading technology.

Two is competitive pricing.

Three is a focussed effort meeting the needs of our customers, whether here in Canada or abroad.

Let me drill a little deeper.

Technology is the great TSX story.

Six years ago, we completely renewed our trading system. It was that investment that allowed us to build our market share and restore our reputation for speed, cost and dependability.

But technological change in the exchange industry has become inexorable.

For more than two years we have been doing two things – tweaking our existing system to keep ahead of the pack and creating a whole new system.

The new system, which we have named TSX Quantum, is now being prepared and it is truly revolutionary – so revolutionary that we now anticipate it will set off a TSX Quantum Revolution in the way we trade securities in Canada.

In June we installed a completely new hardware platform – new HP Integrity NonStop Servers that use the Intel Itanium 2 Processor.

This is helping us maximize efficiencies on the current trading system, increasing order throughput and cutting order response times.

The new servers are the final step before rolling out TSX Quantum beginning in the fourth quarter. This is a massive market wide operation and will take all of 2008 to be fully complete.

Lab tests we completed in December indicate that the unique, leading edge software will give us leading messaging capability with response times in the single digit millisecond range.

We believe this will make TSX as fast or faster than any exchange group in the world in executing trades.

In a world of increasingly computerized trading milliseconds matter because computers are not much given to sentimental trading relationships.

All things being equal, a millisecond faster than your competitor will get you the trade.

Now there is competition out there from Alternative Trading Systems or ATSS that think they can do things faster and cheaper.

I am not sure they have got the message. said it in July and I will say it again. Everything I see about Quantum makes it an ATS killer.

When they are taking on our technology, they are going to have to be not just as good as we are but as good as the best in the world.

From the looks of it, ATSS are going to have to spend an awful lot of money just to keep up with us.

The impact of TSX Quantum on the Canadian equity marketplace will be profound. Every aspect of the market will be affected. We are working with participants to make certain they will be ready.

If the technology we are installing is formidable in its own right, add in the second competitive element – competitive pricing.

Since 2000 we have cut trading fees by over 60 per cent.

And we are cutting fees again.

In November, just ahead of Quantum, we will put in place a fee schedule that will significantly reduce the effective fee spread on a round-trip trade.

On the one hand, this will strengthen our competitive position on cross-border trading – the on-going battle to win market share in cross-listed stocks against the competition from NYSE and Nasdaq.

On the other, it means that whatever calculation our would-be competitors were making on cost, they will have to cut that even further.

The reason we do this is straight forward.

Technology is cutting costs, even as it increases speed.

When we pass along savings, our experience has been that we attract more trading, which means that we benefit along with our customers.

And to bring that right back home, to your needs, it means that it costs less to raise the capital you need to build on the huge advantages this region now enjoys in a world hungry for food, fertilizer, and energy.

This brings me back to the third leg of this three-legged stool on which we rest our competitive position – a focus on our customers needs.

In the trading arena, this means that we need to be faster, cheaper and more dependable than any competitors that might arise.

We have been all of these. We intend to remain so.

Aside from having the best technology and the most competitive fees, we also have made our system as user-friendly as we can.

We have been focusing our efforts on increasing north-bound orderflow on cross-listed stocks – and we have had considerable success in this area.

The other side is taking care of our issuers, especially small and medium sized companies.

At TSX Group, we have in TSX Venture Exchange a public venture capital marketplace that is unique in the world.

Its purpose is to bring emerging companies to the public market and help them grow

Through TSX Venture, our goal is to build companies that can graduate to the senior exchange and if they are really successful move into the broader world markets.

TSX Venture provides unique listing vehicles, hands-on guidance through the intricacies of being a regulated public company, mentoring for growth, and solid but sensible regulatory oversight.

And none makes it as easy to graduate to a senior market with all the additional exposure to investors and opportunities that involves.

What I am describing is an exchange that is precisely the kind of source of risk capital that a fast-growing economy like Saskatoon needs to add value to its existing advantages and gain visibility in national markets.

The opportunities are all around you

What you need is to gain access to the risk capital and the risk capitalists who will help you take advantage of them.

That is our job.

Let me conclude my remarks with some perspective on what is happening globally in the exchange industry.

Since the 1800s, exchanges were organized as cartels of brokers based locally in cities of sufficient size and economic activity.

Brokers formed the cartels for two main reasons. One was to fix prices for commissions and the second was to control who could be a member and what rogues would be excluded. Without technology, trading had to be done locally, in person.

This model lasted for decades right up until the 1990s when two things changed. First the introduction of computer trading technology in which Toronto Stock Exchange was a pioneer. Second the reduction in telecommunication costs due to fibre optic connections.

Technology had a profound effect on the exchange industry. It dramatically increased the volume of trading and brought costs down. Furthermore the old city model of exchanges transformed into a national model where every country consolidated into one national exchange (two in the US). In 1999 Canada completed this consolidation.

In a historical turning point that occurred around the world, exchanges were turned into for-profit companies and many were sold by the brokers and listed on their own exchanges. TSX took that step in November 2002. This permitted the restructuring of exchanges with new professional management that saw technology as the root of the competitive advantage. As the new Board of Directors and management introduced new technology they were able to offer more reliable and lower cost services. Costs came down, volumes went up and profits went up. Exchange valuations took off.

Like the transformation of any other technology-based industry, exchanges are now in the next phase of development – global consolidation.

This is what is happening –

- NYSE bought Euronext

Nasdaq bid on LSE and is now bidding on OMX

Eurex (Deutsche Borse and SWX) has agreed to buy ISE

LSE has agreed to buy Borsa Italiana

And just last week Intercontinental Exchange (ICE) our partner in energy, purchased the Winnipeg Commodities Exchange.

The new approach is to grow an exchange that offers multiple asset classes in cash products, derivative products and provides clearing services to its customers.

At TSX, we are pursuing our own response to these trends. We have embraced technology as our competitive advantage. We now offer trading products in equities, energy and debt markets. We offer clearing for our energy products and, subject to regulatory approval, we intend to offer a new clearing agency for derivative products in 2009. We have created cross border relationships with two of the strongest US marketplaces. ISE in derivatives and ICE in energy. When all of this work is complete TSX will offer the complete package of products required to compete in this new environment.

Globally we see two models:

1. Supra-national exchange groups across borders. NYSE Euronext is the best example of this form.

- 2 Exchanges offering a full vertical set of products (cash, derivative and clearing). Hong Kong, Australia and TSX are examples of this form of organization.

Whatever the outcome of this next phase of development, we at TSX are confident our exchange will remain the primary source of price formation for trading Canadian products. We will need to continue to adapt to these new market conditions. Some of these changes may be profound. We believe it is critical for Canada to maintain a strong domestic capital market. This means we must be engaged in global market developments.

We think the way we are transforming TSX Group, the way we are prepared for the future, the initiatives we have underway to play a leading role in commodities and derivatives – all these will help us do our job better.

The opportunity is there for Saskatchewan business to participate and TSX will be your strong partner.

Thank you for your time and attention