

Supersecurities Conference in Toronto

Remarks for Kevan Cowan, President TSX Venture Exchange

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FINAL

Thank you Connie for your generous words of introduction, and good afternoon everyone.

It is also intimidating because of the extent of the knowledge and experience in this room, which makes me think of the guy who, faced with a similar roomful of wisdom, said something like:

“Did you ever feel that the world is a tuxedo and you are a pair of brown shoes?”

Well, maybe brown shoes aren't such a bad thing. They remind us that there is a messy world out there which doesn't always fit our perception of the way things work – or at least the way they should work.

I live in that messy world – with issuers and would-be issuers, not just in Canada but in faraway places like China and Australia, India and Peru.

So that is the perspective I bring. And I hope, if I can manage to put a bit of polish on those brown shoes that you will find it interesting to

hear, from my perspective, about the many changes underway in the exchange industry, at TSX Group, and at TSX Venture Exchange.

- Overview of speech / two parts:
- Changes in the exchange industry
- Venture
 - 10 and 10
 - 5 and 5
 - Joined in 1997, few months after floor closed, for a one year project, which turned into ten years
 - Trite to say live in interesting times / But change has been fascinating / 10 years ago, few would have predicted
 - 1999 Realignment and consolidation of Canada's exchanges into senior equities, junior equities and derivatives
 - Acquisition of CDNX – Venture - by TSX
 - Mutual not for profit exchanges to publicly traded for profit exchanges
 - race for faster and cheaper trading systems

- competition for international listings [NYSE ringing bell at Stampede, Nasdaq and AMEX have staff covering Canada, AIM doing regular Canadian roadshows)
- national and international M & A
- Full circle of the very brokers who sold us now intending to compete with us through Alpha, and TSX and Montreal intending to merge

So let me start from 30,000 feet and work my way down to TSX Venture Exchange.

The world of exchanges has gone through incredible change in the last several years.

The best analogy is perhaps the publishing industry, which, until the advent of the computer, really hadn't changed in any fundamental way since Johannes Gutenberg invented movable type better than 550 years ago.

Neither had stock exchanges changed much. The usual history starts with the Amsterdam Stock Exchange - or "Beurs" - in the early 1600s because that is where the first shares were issued.

But the very name Beurs is linked to a Belgian named Van der Burse whose house was used for commodity trading in the early 1300s, so stock exchanges may well be older than printing.

Of interest to this audience, perhaps, is that regulators were around before printing, too. In 1351, the Venetian government outlawed the spreading of rumours intended to lower the price of government paper. Take that, too, Mr. Corcoran.

Fast forward now to the arrival of electronic trading. At TSX, then the TSE, we were one of the first exchanges to go into electronic trading through our Computer Assisted Trading System, or CATS -- 30 years ago this year, and a few years ahead of the musical.

It served us pretty well. We sold a CATS system to the Paris Bourse. We used it to pioneer such important products as the Exchange Traded Fund, developed in 1989 and first traded in Toronto in March 1990, three years ahead of the introduction of SPDRS on the American Stock Exchange.

CATS served us for 20 years, when we used it as the basis for going fully electronic and eliminating the trading floor that had been the heart of our market since 1852. The NYSE is still in the process of eliminating its trading floor.

Less than five years later after going fully electronic, we had to put in a whole new trading system to deal with the demands for speed and volume that accompanied the tech bubble and, even more, its bursting.

Now we are in the process of moving to a new system entirely as we migrate our listings to the new TSX Quantum Trading Engine.

The performance of Quantum is not measured in minutes or even seconds, but in milliseconds and microseconds – that is, in thousandths and millionths of seconds.

It is a great new piece of trading technology, as fast as or faster than the best in the world.

But the explosive pressures let loose by technology go far beyond speed and volume. They go far beyond the business of trading.

They have forced exchanges to change their business model from the old non-profit, mutual ownership by broker dealers to a market model based on broad public ownership.

We were the first North American exchange to list our shares, in November 2002. In the years since, virtually every other exchange, not only in North America but around the world has moved to get a public listing or is in the process of doing so.

All of this has, in turn, forced exchanges out of their utility mindset to a growth model, and growth has increasingly meant seeking out and exploiting global opportunities and trading across borders.

That has forced consolidation in national markets – the process we are involved in now with the M-X – and global consolidation.

Cross-border trading and cross-border mergers, strategic partnerships and minority ownership positions by exchanges in other exchanges have in turn put tremendous pressure on governments and regulators also to change their approaches to cross-border issues.

That change, too, is accelerating in pace and scope. Increasingly, U.S. regulators are looking at the concept of mutual recognition as the key to eliminating excessive costs and paperwork associated with cross-border securities trading, especially for retail investors.

I'm proud to say that over the last several years TSX Group has been a leader in putting the option of mutual recognition on the table, both in terms of Europe and the United States.

We began speaking out on the issue five years ago, arguing that harmonization with the United States was a dead end and mutual recognition of regulatory systems based on comparable objectives and quality was likely to be far more productive and durable.

We argued it would lead, more rapidly, toward regulatory convergence than would the search for harmonization, the pot of gold that lay at the end of the rainbow.

It was a lonely quest and a long one. It is less than a year since the U.S. Securities Exchange Commission began using the words mutual recognition. The very idea was anathema.

But now the words figure in many speeches by the SEC Chair, Christopher Cox, and his fellow commissioners and key staff.

We like to think that we are playing a role in legitimizing the idea of mutual recognition, but it is usually national self-interest that drives basic changes in U.S. policy.

The self-interest involved in this came from two directions at least.

One was an explosion of interest among U.S. investors in putting their money in foreign markets like ours that were outperforming U.S. markets.

Big institutions could work around the rules – and profit from it – but retail investors had to do the paying.

The second involved the interests of two key U.S. financial institutions – NYSE and Nasdaq – in extracting the maximum benefit from the cross-border mergers they were in the process of trying to consummate – NYSE with Euronext, and Nasdaq with London, then when that fell by the wayside, OMX, the Scandinavian Exchange.

The broader U.S. national interest is that it has a global player in global securities markets. NYSE especially is the logical flag bearer.

But it seemed quite clear that U.S. insistence that everyone wanting into the U.S. market had to follow U.S. rules, while also insisting that U.S. exchanges going into foreign markets also play by U.S. rules wasn't going to help NYSE or, less likely, Nasdaq, become that global champion.

But if U.S. national interest is driving this new approach, it is very much in our interest to support mutual recognition, too. It is our two exchanges that list the most U.S. companies of any foreign exchanges – not London’s junior AIM exchange. A significant percentage of our trading volume comes to us from the U.S.

We also are the best equipped to meet the needs of the Small and Medium Sized Enterprises – the SMEs – that fall below the radar of the mega-company oriented U.S. exchanges.

But U.S. regulations that make it more difficult and costly than necessary for U.S. retail investors to trade shares on the Toronto Stock Exchange or TSX Venture Exchange represent a complication for U.S. companies that like what we, the Canadian exchanges, have to offer.

How quickly is freer Canada-U.S. trade in securities likely to come?

There is immense pressure on U.S. regulators to move quickly. The pressure comes in the form of turnover in the roster of SEC Commissioners, and a looming presidential election.

So it is likely that something will happen on mutual recognition before next January 20 or it might not happen for a long while after the inauguration of a new president and new appointments to the SEC.

In December I met in Washington with staff of the SEC’s Office of International Affairs to ensure that we at TSX are doing all that we can do to advance the cause of mutual recognition. My overwhelming sense is that senior staff at the SEC expects a paper on mutual

recognition to be issued in this quarter. I'd expect slippage – there almost always is – but their sense of urgency was very clear to me.

Indeed, they have already moved on one critical area involving mutual recognition – issuing a paper inviting comment on U.S. adoption of International Financial Reporting Standards that would not require companies to reconcile their accounts with U.S. GAAP if they are using IFRS.

We are on the same track to the use of IFRS. So are nearly 100 other countries, so it looks likely that we will wind up with something approaching a global standard – IFRS - regardless of what happens in the U.S. presidential election campaign.

I hope and trust that Canadian regulators can co-operate to ensure that, as the U.S. moves toward the mutual recognition of global accounting standards and other countries' comparable regulation of exchanges and broker-dealers, we will be a part of it.

Of particular importance in this quest is our regulatory system.

The complexity of our system of provincially-based multiple regulators is clearly a concern to U.S. regulators.

- Us Campaign – ten cities – loudest concern was from the SEC
- Canada vs. TransAtlantic

As the SEC contemplates the need to extend mutual recognition to our regulatory and self-regulatory organizations, our exchanges and our broker-dealers, they need to be confident that we will be able to reciprocate for the whole Canadian market, not just for pieces of it.

This is a key test, in other words, for our regulators' capacity to cooperate on behalf of the whole Canadian market, not just their provincial or territorial markets.

That is because free trade in securities will provide benefits that are national in scope, just as Nafta has provided clear national benefits in trade, employment, growth and financial strength.

From my own extensive travels in the U.S., through our U.S. road show, and the efforts of our Team USA to encourage trading, I am convinced that there is a huge opportunity to be gained for Canada – and all who benefit from building our strength as a key North American financial centre – in removing the impediments, and associated costs, that slow down the growth of cross-border trading.

In areas of strength – areas where the Canadian public equity markets have international competitive advantage – namely mining, energy, technology and SMEs in general – we have made a concerted effort to win listings on targeted basis with a global reach, and we have had considerable success. With well over two hundred international listings on our two exchanges, we are performing well on the international playing field.

I am, in fact, confident that our regulators will do what needs to be done to bring us into global system based on mutual recognition.

They have been highly supportive already in key areas.

One of the most important involves governance. Our regulators have sent a powerful signal that they understand the needs of our market by their recent decision to exempt TSX Venture issuers from the SOX-inspired rules on certifying the adequacy of internal financial controls.

Imposing these rules on small and micro-cap companies never made a great deal of sense.

Virtually every study showed that the costs of applying this requirement to small companies far outweighed any benefit.

But for several years after Sarbanes-Oxley came into force, we had this huge national tug-o-war.

Nobody was arguing for an unregulated market like AIM. But few – outside that small community of U.S. issuers and major institutions that never invested in Venture issuers anyway – believed that SOX rules made any sense for smaller Canadian companies either.

- The magic of designing a stock exchange – balancing access to capital with measures designed to sustain the standards and integrity of the market
- Canada unique – junior market – senior style regime – AIM, OTC

- As infamous SOX 404 debated – CSA turned away from auditor attestation, but added to CEO / CFO certification – my concern – especially in an era of civil liability - would force companies to auditors anyway
- One threat – investors – but primary concerns are management, the story, and maximizing the money into the project

What our regulators have done – to adopt a bright line test between TSX Venture and Toronto Stock Exchange, and provide different treatment between issuers on the senior exchange and Venture – is a great compromise between too little and too much regulation, and it is totally appropriate to our market.

It will also be of significant help in attracting to our markets smaller U.S. companies that want to go public but do not find sufficient comfort in the SEC continuing to delay, but not eliminate, the application of the financial rules to smaller-cap companies in the U.S.

In the backlash against SOX south of the border, the SEC, of course, is also trying to convince larger companies that they should take a more risk-based approach to controls, rather than submit to the all-encompassing box-ticking approach that has so enriched the major U.S. accounting firms.

Let me now turn more specifically to the Venture Exchange, and talk a little about where it has come from, how it is performing, and what are some of its key trends.

Venture is unique in the world of exchanges. Other major markets like Nasdaq and Deutsche Boerse – there is that Belgian’s name again – have tried to create comparable junior markets without success. TSX Venture Exchange has been a tremendous success for Canada, and a vital contributor to the Canadian economy.

- SUCCESSS
- None expected this level of success
- Successive record years / year after year hitting ball out of the park
- Success Measures – Financing, trading, graduation
- Financing
 - 2, 4, 6, 8,12
 - Resources
 - Tech up by 60%
- Trading
 - Over 200 million shares / day
 - Investor participation / diversification / Versus private money, “If not in the room, not in the deal”

- Graduation
 - Record 73 / (99% return)
 - 386 / (AIM – around 20)
 - 70 M & A
 - 450 provided with platform for growth
 - “Hollowing Out”

- CPC Program
 - 2007 Record year
 - Almost 1,900
 - Over 80% completing QTs
 - 237 on TSX
 - 28% grads were CPCs
 - 9% of new TSX listings were CPCs
 - Ontario
 -

- Gratuitous Advice to Young Lawyers re. CPCs

- TRENDS

- Mining

- Oil and Gas

- Ontario growing – now bigger than Alberta in total and new listings

- CPCs growing like wildfire

- Tech growing

Success / Market will turn:

But the key is that we will have built the market in the meantime, and the setback will not be permanent. The low will be higher than the last low, and with the next upswing the market – and the opportunities for issuers and investors – will be higher.

Our challenge – and opportunity – is to parlay the gains built on the commodity cycle into overall market growth and participation.

- What doing to build the market:

- CPC Program / IPO / RTO
- NEX
- TSX Venture 50
- Mentorship
- US Campaign – Canadian services (legal, investment banking, geological)
 - US revolution – RTOs and PIPES
 - We’ve been doing that for 100 years

Some will argue that companies are going public too early in Canada. I would argue that the record of success for the Venture Exchange speaks for itself. We have evolved into a critical growth tool, a key economic institution making a big contribution to connecting Canadian entrepreneurs and ideas to risk capital, ensuring that they meet key financial standards and understand the responsibilities that come with being public companies.

What we do in this regard is the envy of U.S. regulators.

- Coulson
- Campos – “How do we get one of those?”

The fact is – and it was implicit in Commissioner Campos’ question – that smaller U.S. companies consigned to the pink sheets and bulletin-boards and operating in the shadows of “robust” American regulation represent the true Wild West in the securities industry, not the Canadian market.

The Canadian public equity markets have tremendous strength:

- Punch above weight
- 7th in world, 3rd in North America in market cap
- Top 10 in total financing activity
- 2nd in number of listed public companies
- World leader in mining, energy and SMEs

Our collective strength and world class performance in the utilization of public equity markets to provide growth opportunities for Canadian companies is something for us to be very proud of. We are a small country population-wise, playing in the top tier of international equity markets competition. This was especially apparent as I travelled to ten US cities last year as part of our effort – in conjunction with several Canadian investment banks and law firms – to raise awareness about our competitive advantages in SME, mining and energy. Many of our stops were flooded with US entrepreneurs and company

builders looking for alternatives to source that all important growth capital.

To maintain our competitive advantage in the face of globalizing securities markets, it is crucial that our relationships with our regulators stay strong and responsive. The relationships must remain mutually supportive ones that benefit all of us, that benefit our capital markets, our entrepreneurs, our investors, our economy.

We must maintain these relationships as we continue to work our way through all the issues that face us – through new accounting standards, through the many decisions related to mutual recognition, through the ongoing work of compliance and enforcement, through all the things that are needed to create a market whose hallmark is integrity and is recognized as such at home and abroad.

We know we have an important role in helping regulators achieve that goal. We are delighted that they are supporting us to build these unique Canadian institutions, like the TSX Venture Exchange, into things better still.

Thank you for your time and attention. That's it for the brown shoes. Now you can get back to the tuxedo, and the rest of this super conference.