

# 16

## **Toronto Stock Exchange— From Toronto Stock Exchange to TSE Inc.: Toronto’s Experience with Demutualization**

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### **16.1 Introduction**

On 1 January 1993, the Stockholm Stock Exchange did something novel—it became a for-profit share company with brokers and listed companies as shareholders. Today, demutualization is becoming the norm. Seventeen securities and futures exchanges have demutualized, and at least twelve more have set the machinery in motion. It would be surprising if there were any exchange for which the question of whether to demutualize is not at least on the radar screen.

The process toward exchange demutualization may seem inevitable, but it is not one to be taken lightly. It raises any number of issues for the markets, its stakeholders and its regulators.

### **16.2 An Overview of the Toronto Stock Exchange (TSE)**

The TSE can be broadly broken down into three broad lines of business: equities trading, listings and the sale of market data. In addition, TSE supports these business lines through market regulation, information technology, marketing and investor education programmes and internal administration. Previously, TSE operated derivative and unlisted over-the-counter trading markets. Pursuant to an agreement among the Canadian stock exchanges, these businesses were transferred to the

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Montreal Exchange (ME) and the Canadian Venture Exchange (CDNX)<sup>2</sup> respectively. The TSE is now the sole Canadian exchange for senior equity issuers, the CDNX is the sole market for junior issuers and the ME is the sole derivatives market.

Earlier this year, TSE and CDNX reached an agreement whereby the TSE will purchase all of the outstanding CDNX shares, but will continue to operate it as a separate venture exchange. The deal has received shareholder approval and is subject to regulatory approval.

### 16.2.1 Equities Trading

An electronic equities market such as the TSE consists of three major components: trading stations providing access to the trading system, the trading system itself and a system to clear and settle trades. Of these, the stock exchange traditionally focused on the first two; clearing and settlement is performed by the Canadian Depository for Securities, of which TSE is a part owner together with the other Canadian exchanges and other participants. When the Computer Assisted Trading System (CATS) was first launched,<sup>3</sup> TSE was also the exclusive provider of trading stations. This is no longer the case; the move to an open access (gateway) environment has allowed third parties to use a standard message protocol (STAMP) to build trading stations, and the TSE no longer provides trading stations.

Trading on the TSE occurs in a continuous auction market with a fully electronic, visible order book. The original CATS trading engine was replaced this year by a new engine adapted from the one operated by the Paris Bourse. Liquidity is maintained by combining the efficiency of an electronic agency market with registered traders who commit capital to moderate short-terms gaps in liquidity.

The continuous market cannot, however, serve all investor needs. The TSE's order book generally cannot provide the levels of liquidity required to execute large block trades. Furthermore, the transparency of the continuous market runs counter to the block market's need for pre-trade anonymity and non-disclosure to avoid market impact.

Block trades are generally negotiated in the upstairs market, which provides less visibility and operates on a non-continuous basis. The TSE regulates upstairs trading by requiring the trade to be executed the

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<sup>2</sup> The entity formed from the merger of the Alberta Stock Exchange and the Vancouver Stock Exchange.

<sup>3</sup> CATS was the world's first fully electronic order-entry and execution service.

exchange as soon as it is matched. Trades in the upstairs market must comply with TSE rules (such as rules governing short sales) and must be within the context of the market, meaning that any better-priced orders in the book must be filled in full before the trade can be completed.

### 16.2.2 Listings

The TSE is the largest equities market in Canada, listing all major Canadian issues. TSE maintains a prestigious, high profile brand as a well-regulated, liquid market with well-capitalized member firms. Companies seeking to list on the stock exchange do so in order to access low cost capital and associate with a widely recognized market and a reputable peer group.

TSE maintains the quality of the stock list in order to maintain the credibility of the TSE market, protect investors' interests and instill investor confidence. In addition to vetting all listing applicants for compliance with the stock exchange listing requirements, TSE regulates financings and certain other aspects of companies' ongoing operations.

### 16.2.3 Market Data Services

Market Data services include real-time market data—among those, the TSE's market-by-order display of all orders in the Book—and historical data and publications. Real-time data is provided to vendors who resell it to end-users in Canada and around the world.

### 16.2.4 Market Regulation

The TSE is recognized by the Ontario Securities Commission (OSC) as a stock exchange under the *Securities Act* (Ontario). Although a stock exchange is not defined in the *Act*, a recognized exchange is obliged to regulate the business and conduct of its members. In addition, TSE is granted certain regulatory authority by virtue of the *Toronto Stock Exchange Act*.

The TSE's regulation effort is dedicated to maintaining the integrity of the TSE market and effective regulation of equity markets and trading generally. Following consolidation of the TSE's member regulation functions<sup>4</sup> with the Investment Dealers Association of Canada (IDA) in

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<sup>4</sup> "Member" regulation consists of the non-trading aspects of a broker's operations and includes sales compliance, regulation of advertising and capital and margin rules.

1997, the stock exchange focused solely on market regulation, with all TSE members being required to be members in good standing of the IDA. The TSE's regulatory program focuses on three types of market regulation, as well as the regulation of listed companies described above.

*Overall market regulation.* The TSE oversees members' trading operations and market activities in order to maintain effective, centralized, market regulation. Such regulation, which is not restricted to trading on the stock exchange, is a role generally played by a primary market and addresses general issues of trading ethics and investor protection in the markets.

*Supervision of TSE markets.* The TSE sets rules governing the operation of its market, monitors trading activity, and administers and enforces the rules through its regulatory policy, market surveillance and enforcement functions.

*Membership<sup>5</sup> approvals.* The TSE sets standards governing qualification for membership and access to its markets, and vets applicants for compliance with these standards.

## 16.3 The Development of Mutual Exchanges

Exchanges evolved from informal trading sessions in coffeehouses to organizations competing globally for market share. The governance structures that worked well in the early days increasingly became a hindrance, as exchanges more and more needed to react quickly to domestic and international developments.

### 16.3.1 Monopolies and Mutualization

In 1861, when the Toronto Stock Exchange (TSE) was initially founded,<sup>6</sup> telecommunications were in their infancy, brokers were local and exchanges were locally focused, as were most other businesses of the time. There were more than 200 exchanges in North America in the 1800s, but it was not an era of robust competition. An exchange's customer base was local and it did not face meaningful competition from exchanges in distant cities.

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<sup>5</sup> As noted below, firms admitted to trading are now known as "Participating Organizations."

<sup>6</sup> TSE was not incorporated until 1878.

In an environment with little competition, a mutual ownership structure is effective in that the owners have an incentive to control its expenses and to motivate it to deliver innovative, cost-effective services because they are also the primary customers. The alternative would be for the government to regulate the exchange as a monopoly provider, setting (or approving) the rates it charges.<sup>7</sup>

### 16.3.2 Exchanges as Self-Regulatory Organizations

The model chosen by TSE, which was the model adopted by most, if not all markets of the time was a self-governing one reflecting an enlightened self-interest on the part of participants. Markets would not be successful if participants did not have confidence that they would be treated fairly and honestly by their broker and that the market itself operated fairly. Exchanges restricted access, set rules and regulations governing the business conduct of their members and set rules or procedures designed to ensure that bargains would be honoured (the “credit ring”). The very first minutes of the TSE stated that applicants were to be approved by the membership “for the purpose of securing the confidence of the public in the Association.”<sup>8</sup> Even today, the requirements for new applicants for membership on virtually every exchange can be boiled down to two essential characteristics: demonstrating that the applicant is “fit and proper” and creditworthy.

Self-regulation has the following benefits:

- *Ethical standards.* SROs have the ability to impose ethical standards which go beyond those which can be imposed by statutory laws.
- *Accountability.* Self-regulators are directly accountable to their members—and often the government—for actions taken or not taken. Thus, the SRO system carries a built in motivation to take the regulatory course which is the most effective and least disruptive to market efficiency.
- *Acceptability.* Self-regulation operates in an environment where there

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<sup>7</sup> This was the role of government in overseeing exchange rules that limited competition, most notable of which were rules in many markets fixing the commissions that members could charge their customers.

<sup>8</sup> TSE Minute Book, 18 October 1861 (cited in R. Daniels, Trebilcock, Halpern & Macey, *The Toronto Stock Exchange and the Public Interest: A Paradigm in Transition*, 28 (5 October 1998) (hereinafter “Daniels Report”).

is a willingness to accept regulations promulgated by professional peers as the necessary and appropriate action for the common good of the group. Self-regulation is not limited to the SRO, but extends to firms and users. The credibility of the SRO staff, as well as the opportunity to participate means that changes that impact business are more likely to be accepted than commission rules.

- *Sensitivity.* Self-regulators have the business sensitivity to know when a regulation will be workable and beneficial to the investors and users of the markets.
- *Participation.* The opportunity of persons and organizations who are subject to the regulations to participate at all levels of the self-regulatory process makes it easier to accept new regulations which often means restrictions or impediments to legitimate business activities.
- *Checks and balances.* Self-regulation has a built-in system of checks and balances. The persons and organizations which must comply with the regulations, such as companies who list their securities, and members and investors who do business on the exchanges, are less reluctant to make their views known to the SRO with whom they have a business relationship.
- *Responsiveness.* Self-regulators are able to identify and comprehend complex problems at an early stage and can respond with a solution or approach to meet the specific or particular development or problem situation. This ability to respond to developments as they are occurring often can ameliorate or lessen potential problem situations before they reach a crisis stage.
- *Expertise.* Self-regulators also have a reservoir of expertise in the offices and staff of their member organizations which can be drawn upon at different levels and stages of the self-regulatory process. Thus, SROs have a closeness to, and familiarity with, the field of financial activity to be regulated.
- *Cost effectiveness.* Self-regulation, which often operates as a part of a voluntary membership organizational structure, has a built in incentive to minimize the cost of regulation to investors and users of the markets.

- *Effective use of government resources.* Self-regulation permits the government to devote its resources to activities which cannot be adequately served by self-regulation, such as criminal proceedings, legal actions on insider trading and manipulative practices by non-members.
- *Good business sense.* Self-regulation makes good business sense for both those concerned about investor protection and those subject to the regulation.<sup>9</sup>

Regulation of listed companies came later than regulation of members. Listed company regulation is not, strictly speaking, self-regulation as the exchanges are not organizations of public companies. The jurisdiction over listed companies is contractual, based in the listing agreement pursuant to which the company agrees to comply with applicable exchange rules.

Originally, the concept of “listing” didn’t exist for many exchanges, which traded any and all financial instruments. The TSE was originally established to “facilitate the negotiation or bills of exchange, stocks, shares, debentures and other loans.”<sup>10</sup> As they grew, markets became successful enough that they could charge for the privilege of being admitted to trading. Selective admission also became a form of quality control, which improved investor confidence in the market as issuers were required to meet certain minimum requirements.

In addition to setting entrance requirements, exchanges also began to impose ongoing requirements to maintain a listing. It was the New York Stock Exchange (NYSE), not government, that first required listed companies in the United States to prepare annual financial statements and mail them to shareholders.<sup>11</sup> When the newly-formed US Securities and Exchange Commission first adopted continuous disclosure requirements for public companies, they largely copied the NYSE rules already in place.<sup>12</sup>

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<sup>8</sup> International Capital Markets Group, Standards of Self-Regulation of the Securities Markets (1992).

<sup>10</sup> *Id.*

<sup>11</sup> Toronto Stock Exchange Committee on Corporate Disclosure, *Toward Improved Disclosure: A Search for Balance in Corporate Disclosure*, 27 (1 December 1995).

<sup>12</sup> Mahoney, The Allocation of Government Authority: The Exchange as Regulator, 83 VA. L. Rev. 1453, 1466 (1997).

### 16.3.3 The Increasing Role of Government Oversight

Like most if not all exchanges at the time, the TSE originally operated without government regulation or oversight. What regulation existed governed primary issues of securities by companies. The stock market crash of 1929 gave rise to allegations of market manipulation and unfair trading practices. The exchanges were criticized as private clubs that were more concerned with the welfare of their members than of the public.<sup>13</sup> The *United States Securities Exchange Act* of 1934 gave the SEC the power to regulate national securities exchanges. In 1945, the Ontario Securities Commission was given the explicit power to regulate stock exchanges operating in the province.<sup>14</sup>

However, the initiatives in most jurisdictions—until recently, the United Kingdom remained almost a purely self-regulatory system with minimal government oversight—did not replace the exchanges with the government as regulator. The regulatory regime recognized the self-regulatory function of the markets. The role of the securities commission was to oversee the regulation by the market, not to perform the day-to-day task of front-line broker and market regulation. The role of government was to keep the SRO honest, ensuring that it always resolved the inherent conflict of interest in favour of the public.

The TSE's regulation of market participants seeks to maintain the credibility of the TSE's market, protect investors' interests and instill investor confidence. In addition to listed company regulation, TSE oversees members' overall equity trading operations and market activities. Such regulation, which is not restricted to trading on the stock exchange, addresses general issues of trading ethics and investor protection in the markets. In addition, TSE sets rules governing the operation of its market, monitors trading activity, and administers and enforces the rules through its regulatory policy, market surveillance and enforcement functions. Finally, TSE establishes criteria for access to its market as a member.

The TSE is overseen by the OSC to ensure that it operates in the public interest. OSC must approve any TSE rules that raise "public interest" issues—as that term is defined in the protocol between OSC and TSE dated 23 October 1997—in advance of implementation. In addition, the commission has a general power to make any order with respect to the TSE that it deems necessary in the public interest, and can review any direction, decision, order or ruling of TSE at the request of its Executive

<sup>13</sup> Id. at 1464.

<sup>14</sup> Daniels Report, *supra* note 8, at 33.

Director or any person directly affected by such direction, decision, order or ruling.

## **16.4 Consolidation, Globalization and New Competition**

The first telecommunications breakthroughs in the 1800s, the telegraph and the telephone, made it easier to deal on a distant exchange. National exchanges emerged, and smaller ones were taken over, relegated to regional or niche status or closed. As one example, the TSE merged with the smaller Standard Stock & Mining Exchange in 1934.

Lately, the markets have witnessed the growth of electronic trading, which the TSE pioneered with its CATS system. In fact, electronic trading itself has changed. What started out as proprietary, closed electronic systems now have open architecture—allowing anyone to plug into them. The Internet is now emerging as both an order routing and trading platform.

Today, investors are increasingly taking a greater interest in foreign securities. Investment is more and more on a sectoral, rather than national, basis. Large Canadian companies have long interlisted on US markets—the NYSE, the American Stock Exchange and NASDAQ. The TSE's primary competition comes not from other Canadian exchanges but from US markets.

The presence of large, liquid American markets in the same time zone presents an enormous competitive challenge for TSE. The number of Canadian-based interlisted issuers (CBIs) has grown from 137 in 1989 to over 270. Although the TSE has competed successfully and is the dominant market for senior Canadian issuers, it would not take a large shift in market share in trading in CBIs to tilt the balance to competing American markets. If this happened, the US markets would challenge the TSE to become the primary price discovery mechanism for Canadian issuers, attracting even more order flow.

### **16.4.1 Alternative Trading Systems (ATs)**

The past few decades has seen the growth of institutions from relatively small players to dominant players in the markets today. Institutional investors have unique needs not met by traditional trading structures. In particular, they have a need for anonymity in trading as well as for dealers to commit large amounts of capital. The result has

been the growth of the upstairs market, where trades are matched by dealers and reported to exchanges.

More recently, niche ATSS or Electronic Communication Networks (ECNs) such as Instinet, Posit and the Arizona Stock Exchange have appeared, providing tailored services to meet institutional investor needs.

Retail investors now have virtually direct access to the liquidity pool. They also have access to more information through the Internet and increasingly, the desire to make their own decisions. As access becomes more direct, this could be viewed as exchanges competing with brokers as a means of access to the liquidity pool. Brokers are already being forced to rethink their role and concentrate on value-added services.

To serve retail investors, other ECNs such as Island have been launched to provide a limit order book that NASDAQ, a dealer market, does not provide.

The TSE currently allows members to operate the equivalent of ECNs, provided those ATSS are confined to independently matching block orders, comply with applicable TSE trading rules and are integrated with the TSE order book. The Canadian Securities Administrators<sup>15</sup> are expected to shortly issue rules allowing ATSS to operate outside the exchange framework.<sup>16</sup>

## 16.5 The Demutualization Decision

In 1998, the TSE's Board of Governors undertook a strategy development process which involved an assessment of the TSE's capabilities and competitive position, a review of the experiences of other exchanges, a survey of the TSE's constituents' needs and attitudes, and a consideration of governance alternatives. This process was motivated by a recognition that the TSE's future was threatened and that a strategic direction was required to enable the TSE to succeed in the future.

The result of this process was a strategy blueprint, entitled *A Blueprint for Success*,<sup>17</sup> which was released to members (and to the public) in October 1998. A cornerstone to executing the strategic directions articulated in the blueprint was a new ownership and governance structure for the TSE.

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<sup>15</sup> Securities regulation in Canada is on a provincial basis. An action by the "Canadian Securities Administrators" denotes joint harmonized action by the various provincial commissions.

<sup>16</sup> Two versions of proposed ATS rules have previously been issued for comment.

<sup>17</sup> Available at <[http://www.tse.com/tse\\_inc/index.html](http://www.tse.com/tse_inc/index.html)>.

The *Blueprint* identified the trends that are affecting the TSE's business and the challenges facing the TSE in the current marketplace. The report integrated the analysis derived from those trends and challenges with an understanding of the TSE's products and market position.

The *Blueprint* identified and recommended, among others, the following initiatives designed to enhance the TSE's product and service offerings and assist the TSE in being responsive to the competitive marketplace of which it is a part:

- (i) invest in core and new trading modalities;
- (ii) continue to act as an integrator of post-trade market information;
- (iii) continually update its offering with new products and services;
- (iv) improve the market support function; and
- (v) improve its value proposition for listed companies.

In order to implement these initiatives, The *Blueprint* recognized the need for a different governance model than the one currently in place and recommended a new ownership and governance model for the TSE with the following elements:

- (i) for-profit instead of not-for-profit;
- (ii) shareholder structure instead of member-seatholder structure;
- (iii) separation of access from ownership; and
- (iv) initially designating at least half of the seats on the Board for directors from outside the brokerage community.<sup>18</sup>

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<sup>18</sup> At the time, 10 of the 15 seats on the Board were reserved for representatives of member firms. Four governors were "public governors" and the President and CEO of TSE was an ex-officio member.

### 16.5.1 Rationale

The TSE's not-for-profit, cooperative governance structure, which once served it well, had become more of a hindrance than a benefit. A mutual ownership structure has inherent inefficiencies. Mutual entities often lack, or have ill-defined, strategic goals and business purposes. Their structure can give rise to potential conflicts of purpose between organizational needs and the needs of members (or groups of members).

In the case of the TSE, vigorous competition from American stock exchanges and the threat of competition from ATs exerted a higher level of discipline on management to provide cost-effective services to its stakeholders than its mutual ownership structure.

The Board recommended that the TSE become a for-profit, demutualized company for the following reasons:

- *Focused governance model.* A for-profit entity with a business-minded governance structure best allows the TSE to keep its mandate clear and accountability focused, which will assist the TSE in meeting its competitive challenges.
- *Divergences of interests.* A governance structure that made sense years ago is no longer appropriate today as members themselves no longer belong to a homogenous group. Indeed, both the size of members and the markets in which they compete are becoming more diverse. Since the TSE has historically attempted to resolve issues by consensus, the current governance model is becoming an increasingly slow and cumbersome method of making decisions. Action is delayed by lengthy consultation, making it difficult for the TSE to respond quickly and decisively to changes in the market.
- *Serving the TSE's customers.* By limiting ownership to members, the TSE has not been as flexible and proactive in responding to all of its customers' needs. A business model of ownership will provide the TSE with the platform from which to meet these needs more effectively.
- *Access to capital.* The not-for-profit cooperative structure has limited the TSE's access to capital, apart from raising its fees, to levies on its seatholders.
- *No rationale for continuing with a seatholder structure.* Originally, a "seat" on the TSE was just that: a seat on the trading floor. At the

time, physical presence on the floor was the only means to trade on the TSE. Later, a seat became an entitlement to have a certain number of traders on the floor, and restrictions on the number of seats reflected the limited real estate available for trading. In an electronic exchange, these concerns are no longer relevant. Any member can have as many traders accessing the trading system as it has trading stations, and does not have to acquire more seats to increase its complement of trading personnel.

### 16.5.2 The Demutualization Process

Demutualization required member approval. This was obtained, and as of 1 April 2000:

- TSE became The Toronto Stock Exchange Inc., a for-profit corporation. Members became shareholders and the Board of Governors was renamed the Board of Directors.
- TSE is no longer a seat-based, member-owned company. Seats were exchanged for shares on the basis of 20 shares per seat.
- Share ownership is constrained. No person or persons acting jointly or in concert may beneficially own or control more than 5% of the outstanding shares unless the prior consent of the OSC is obtained. A member that received more than 5% of the outstanding shares pursuant to the seat exchange was “grandfathered,” but is not able to exercise more than 5% of the votes outstanding. This actually slightly increased the voting power of those members—previously, members that held more than three seats (out of 127 at the time) were restricted to three votes.
- For two years, shares of TSE cannot be transferred unless the consent of the board of directors or of a majority of shareholders is obtained. After this date, resales will be restricted by securities legislation unless TSE files a prospectus or relief from applicable prospectus requirements is available.
- Access to the TSE's trading system is now based on contract, not ownership. Brokers granted access to trading are now known as “Participating Organizations” rather than members. Existing members at the time of demutualization were given access and are not required to remain shareholders of TSE Inc. in order to trade.

- TSE continues to approve new applications for trading privileges. However, applicants only have to execute a Participating Organization Agreement to be able to trade. They are not required to own shares of TSE Inc. Conversely, access rights do not entitle Participating Organizations to participate in the ownership or governance of the TSE.
- The number of member governors who are not affiliated with a member was increased so that they form 50% of the Board. Previously, the Board nominated these “public” governors subject to confirmation by the Ontario Ministry of Finance. Today, they are elected by shareholders at the annual meeting.

Demutualization required several steps after member approval was obtained:

- Demutualization was approved by the OSC and the Ontario Minister of Finance—as part of the process, the TSE had to submit a new recognition order to the OSC for approval setting out the terms and conditions under which TSE would be permitted to continue to operate as an exchange;<sup>19</sup> and
- The Ontario Legislative Assembly passed legislation providing for the continuance of the TSE under the Ontario Business Corporations Act (previously, TSE had been incorporated under special purpose legislation).<sup>20</sup>

## 16.6 Market Regulation by a Demutualized Exchange

Maintaining a well-regulated marketplace is a source of competitive advantage and is vital to maintaining the TSE’s credibility and reputation. This is especially important given that the TSE’s primary competitors are the NYSE and NASDAQ, which have comprehensive self-regulatory programs.

However, one of the greatest concerns arose because some firms believed that TSE would use its regulatory powers to hinder business

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<sup>19</sup> A draft version of the recognition order was previously issued for public comment.

<sup>20</sup> The *TSE Act*, as amended remained on the books to confer on TSE the power to regulate its market.

activities by firms it believed to be its competitors. Although those concerns exist in a not-for-profit environment, these firms believed that they would be exacerbated if TSE operated on a for profit basis.

To alleviate those concerns, the TSE restructured market regulation to eliminate perceived conflicts of interest. The TSE's regulatory operations are a discrete division or entity, independent of the operation of the equities trading business, in order to foster enhanced confidence of market participants in the integrity and credibility of the regulatory program, and to address concerns about potential conflicts of interest between the TSE's role as a provider of trading services and a regulator. Although these conflicts exist within any self-regulatory organization, the separation of functions should ensure that they are addressed in a more formal and transparent manner. This restructuring has a number of elements.

The TSE has established a new management and governance structure for regulatory services (TSE RS). The Board retains ultimate policymaking, oversight and corporate authority for TSE RS. A new board-level Regulation Committee has been established to oversee regulatory operations. The committee is comprised of a majority of independent representatives, including representatives from all types of participants in the TSE market, including ATs. TSE RS has an ultimate reporting responsibility to the OSC, the terms for which are defined in the OSC's new recognition order for TSE.

Prior to demutualization, TSE did not charge for regulatory services, as they were bundled with other services. Demutualization changed this. On the one hand, the TSE's services must be self-supporting and priced competitively, to ensure that operations are run with appropriate business disciplines. On the other hand, it was considered inappropriate to run regulation services on a for profit basis. Therefore, participants are now charged a separate fee for regulatory services, based on a cost-recovery model. In this way, participants are able to monitor and see the cost of market regulation.

## 16.7 Next Steps

The TSE has announced that it intends to become a public company in the next 6 to 12 months, depending on market conditions, although it has not determined exactly what form that will take. An IPO is possible, but the exchange does not need to raise capital at this time.

TSE has proposed further spinning off Regulation Services as a separate entity that would initially be jointly owned with the IDA (RS Inc.). In conjunction with this, Regulation Services has proposed a set of “universal” market integrity rules that will apply to trading on all marketplaces, including ATSS.<sup>21</sup> It is hoped that this structure will make it more acceptable to ATSS to have Regulation Services as a regulator, and the model is flexible enough to provide for the representation of other markets within the governance structure of RS Inc.

## 16.8 Conclusion

It is too soon to definitively list the impacts of demutualization. As the TSE is not yet a public company, it has not totally divorced ownership from “membership.” However, it is developing a more business-focused approach and is more flexible than in the past. It is unlikely that a decision to take over CDNX could have been made and followed through so quickly in a mutualized environment where a consensus had to be developed. Certainly, nothing has occurred to cause management to regret the decision to demutualize.

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<sup>21</sup> Fuller details can be found on the TSE Regulation Services website (<http://tsers.com/>) under “Publications—Regulatory Notices—Notice 2000-017.”