



REDÉCOUVRIR LA BOURSE DE MONTRÉAL

REDISCOVER THE MONTRÉAL EXCHANGE

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Mesdames et messieurs,
Ladies and gentlemen,
Good morning.

Permettez-moi de remercier le Club universitaire de Montréal pour cette invitation à prendre la parole ce matin.

C'est un grand plaisir d'être parmi vous et je suis particulièrement honoré d'être le premier invité à relancer cette série de petits-déjeuners causerie du Club.

Le rôle de la Bourse de Montréal depuis sa transformation en 1999 et son importance dans les marchés financiers demeurent généralement mal connus.

Certains pensent qu'elle est toujours une bourse où les titres se négocient à la crieée. D'autres estiment que la Bourse de Montréal évolue dans un marché marginal. D'autres encore sont convaincus que son concurrent est la Bourse de Toronto.

Dans tous les cas, ces perceptions sont, bien entendu, fausses.

C'est pourquoi je vous invite aujourd'hui à redécouvrir la Bourse de Montréal.

Je vais donc vous présenter ce matin un tableau juste et précis de la Bourse de Montréal, une institution qui joue un rôle fondamental dans le marché financier canadien.

Je vais faire ma présentation en anglais, les diapositives sont en français, et il me fera plaisir de répondre à vos questions dans la langue de votre choix !

Perhaps unbeknown to most, derivatives and the Montréal Exchange play an important role in the financial system and the Canadian economy.

For example:

- your financial institution can guarantee you a lending rate for the next six months ... thanks to the use of derivatives;
- your broker can offer you simple options strategies that will let you obtain a higher return on your investments;
- the information your financial adviser obtains from movements in the derivatives market lets him or her make decisions on the probable direction of the markets;
- by virtue of sound risk management, your pension fund will be capable of providing you with income when you retire;

- your company can hedge against the risks associated with interest rate fluctuations by using interest rate futures contracts;
- derivatives allow governments to manage public finances more efficiently.

So whether to reduce risks, obtain a higher return, limit a loss, preserve a gain or diversify your portfolio, derivatives are essential.

For the Montréal Exchange, all this activity means that by the end of the day, it will have handled tens of thousands of trades for a notional value of about \$30 billion.

Moreover, on a continuous basis, the Montréal Exchange manages financial commitments of over \$300 billion. This \$300 billion represents the open positions of investors on the MX. It is a sum equivalent to five times the Quebec Government's annual budget.

We have come a long way to reach this level of activity. The Montréal Exchange is now better positioned than ever, as a risk management business.

May I remind you that the MX initiated the 1999 Canadian exchange reorganization program.

Our goal, then and remains today, was to reposition the Montréal Exchange in a high value-added activity which no other Canadian player had yet recognized.

Thereafter, the Exchange's transformation was based on three interrelated strategic initiatives:

- a new business governance following its demutualization;
- the establishment of an advanced electronic trading platform;
- and the introduction of a market model unique in North America.

These initiatives allowed to rapidly reposition our business:

For instance, MX extended its access network to the United States and the United Kingdom; and now benefits from direct connection to the world's most liquid markets: New York, Chicago and London.

Furthermore, the Montréal Exchange became the first non US exchange authorized by the US Securities and Exchange Commission to manage the technical operations of an American exchange namely: the Boston Options Exchange - or BOX.

The MX is also BOX's largest partner.

Other partners include: Citigroup,
Credit Suisse First Boston,
JP Morgan,
Morgan Stanley,
UBS

and BOX's other two founding members, along with the Montréal Exchange, namely Interactive Brokers and the Boston Stock Exchange.

These developments are examples of the successes and highlights of our transformation.

Indeed, we have exceeded our original objectives.

- from 1999 to 2003, MX volume increased by 83%;
- and year to date posted a 22% rate of growth in the first 6 months of 2004;
- the Exchange now handles an daily average of 220,000 contracts from its activities in Canada and the United States.
- By way of comparison, this volume was only 38,200 contracts in 1999;
- open interest, an indicator of activity to come, has grown by 112% since 1999;
- last but not least, our balance sheet is debt free and has over \$38 million in cash, shareholders' equity has practically doubled since our transformation and all capital expenditures and investments have been financed by internally generated cash flow.

This is a brief outline of the Montréal Exchange's rapid growth over the past four years.

Admittedly, the organizational structure established in 1999 has allowed the transformation of the MX into a reliable, leading-edge enterprise.

Now, as we enter the second phase of our development and, as announced on September 15 last, a new structure is being implemented which consists of 3 business lines:

- financial markets;
- clearing services;
- information technology solutions.

First, financial markets:

I spoke earlier of our success as a major participant in the derivatives market and the significant increase in our trading volume over the past four years.

Even though we have registered impressive growth since 1999, we are a long way from reaching our full potential. To reach the average use of derivatives as in other G-7 countries, our volumes need to quadruple.

Therefore, given this important potential, our development efforts here in Canada will continue with earnest.

In foreign markets, the MX will soon be connected to the Trading Technologies electronic platform, the number one access route to proprietary futures traders.

Via TT, the Montréal Exchange will be joining the four dominant players in the futures market, namely, LIFFE
EUREX
Chicago Mercantile Exchange and
the Chicago Board of Trade

This will add to the already numerous means available to traders to access the Montréal Exchange.

Regarding our clearing services:

The Montréal Exchange is expanding its clearing services through its wholly owned subsidiary, the Canadian Derivatives Clearing Corporation, or CDCC. Unique in Canada, the CDCC is one of few clearinghouses worldwide to have a Standard & Poor's AA credit rating.

It must be noted that a clearinghouse is essential in the operation of a derivatives market. Its function is to guarantee the commitments made by market participants. It acts as the counterparty for all the contracts traded on the Exchange, which is why it is called the “central counterparty guarantor”.

Its role as a guarantor of risks greatly increases market efficiency and security, as investors do not need to worry about the counterparty's solvency.

The continuous upgrading of prudential standards, and the phase-in of the new Basle Protocol, scheduled to begin in 2006, will require increased oversight of the OTC market. This creates an opportunity for the Montréal Exchange's Clearinghouse. Its role as “central counterparty” offers a practical, efficient and transparent solution for market participants, notably for banks and especially regulatory authorities concerned about the quality of risk management.

In a similar vein, the CDCC signed a partnership agreement last July with the Alberta Watt Exchange, an energy products exchange. This agreement allows us to increase CDCC's range of activities by adding clearing of energy products. This marks a move by the Exchange into the energy trading sector, strongly shaken in the past years by a crisis of confidence and credit.

Turning to the information technology solutions business line:

The Boston Options Exchange undoubtedly is a strong example of what the Montréal Exchange's team is capable of achieving.

Allow me to digress to give you a very brief example of the complexity and challenge represented by the development and operation of an electronic options market.

- Let's simply start with the price of a share;
- Each variation in the price of this share results in price changes on an average of a hundred instruments on BOX;
- Add the simultaneous interaction of dozens of market makers spread across the United States;
- Then disseminate the market information to thousands of participants;
- Multiply by 500, or the number of option classes we intend to list on BOX;
- Multiply again by the number of variations on the underlying securities during a trading day...

... and you begin to see the system and market complexity the Montréal Exchange deals with each day. And that's just the technological challenge, since I haven't discussed regulatory issues we handled with the SEC.

With BOX, we have developed a unique expertise. The Exchange can now offer its advanced solutions and services to other participants in the United States and elsewhere. This new organizational structure will allow the Montréal Exchange team to dedicate its efforts to its new growth phase.

Ladies and gentlemen, this is what the Montréal Exchange is today and where it is heading tomorrow. Along with a strong financial situation, along with Canadian and international partners and participants, the Exchange has developed leading edge services and technological expertise.

Montréal, as a financial centre, is uniquely positioned, because of its Exchange, to become Canada's risk management centre. Montréal can thereby play an important role in the Canadian financial system and evolve in a high value added growth segment of the financial world.

For the Montréal Exchange, one thing is perfectly clear, we are moving forward.

Thank you for your attention. Merci.