October 21, 2010

Sir David Tweedie  
Chairman  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH

Re: Response to the IASB Exposure Draft ED/2010/6: Revenue from Contracts with Customers

Dear Sir David,

We are responding to the International Accounting Standards Board ("IASB") invitation to comment on the aforementioned exposure draft ("ED").

TMX Group Inc. ("TMX") is an integrated, multi-asset class exchange group in Canada. We own and operate the Toronto Stock Exchange, the TSX Venture Exchange, and the Montreal Exchange, and provide a platform for trading and clearing of natural gas, electricity and crude oil contracts. The services provided by TMX primarily comprise of: (a) issuer services (including initial and additional listing services (collectively, Listing Services) and sustaining services); (b) trading and clearing facilities, data products and other services; and (c) investor relations and related corporate communication services.

While we agree, in principle, with the proposed revenue recognition model set forth in the ED, we have a concern with the potential change to the recognition of non-refundable up-front fees from how they are currently accounted for under IAS 18, Revenue ("IAS 18").

From a principles perspective, we strongly believe that upont fees should be recognized into revenue immediately and not deferred, as long as:

(i) the fees are non-refundable, and  
(ii) a distinct function is performed, and  
(iii) the cost of future services provided to the same customer is covered by future fees.

The proposed ED could specifically impact TMX in our accounting for fees collected for our Listing Services ("Listing Fees"). These fees are non-refundable, require a separate and distinct level of effort to provide the service, and cover all the costs of providing the service. Further, incremental sustaining fees are charged and fully cover the cost of all subsequent services provided to the customers to sustain the listing of their equity securities.
We believe deferring revenue in connection with certain non-refundable upfront fees may not reflect the true picture of the entity’s financial performance. In TMX’s situation, we currently defer revenue associated with Listing Fees, over a period of 10 years, under Canadian GAAP. This accounting treatment could result in income smoothing, which understates results in strong periods and overstates results in weaker periods. We have received feedback from analysts and investors that the Canadian GAAP treatment of Listing Fees does not provide end users with relevant information regarding the actual performance of the Company.

More specifically, from an investor perspective, the current Canadian GAAP accounting for Listing Fees has the following implications:

- **Deferral tends to smooth revenues and obscure results.**
  - For example, TMX could have a significant decline, or even zero, issuer services activity in a given year but still report significant revenue dating from the prior 9 years. Revenue on the financial statements could in fact show growth year over year, despite a dramatic decline in activity and fees billed. Obviously, the opposite situation could also occur, where true growth could be obscured by historical declines. To demonstrate a practical example, in 2009, while our Initial Fees Billed declined 31% from 2008, our financial statements reported Initial Fees had increased by 6%.

- **Expenses and revenues are mismatched.**
  - For example, in a given year, the full expense to provide the Listing Services for that year are being reported against fees billed from the prior 9 years and only 1/10\(^\text{th}\) of the current years fees billed.

- **Incremental disclosure is necessary.**
  - In a given year, the revenue reported is equivalent to 1/10\(^\text{th}\) of the current years fees billed and 1/10\(^\text{th}\) of each of the prior 9 years fees billed. The change in revenue, year over year, is a reflection of the accrual dropping off 10% of the fees billed from 10 years prior and adding 10% of the current years fees billed. Therefore, the Management’s Discussion and Analysis for 2010 is now reconciling the fees billed from 2000 with 2010. As this information does not provide a reader with meaningful information on how initial and additional listing activity impacts the financial performance and cash flows of TMX, we supplement this information with Non-GAAP measures which we believe more accurately reflects the economic substance of these listing transactions.

- **Net assets appear understated.**
  - Included within the liabilities on the balance sheet is deferred revenue on non-refundable upfront fees (which in our case exceeds $500MM, or more than 50% of shareholder equity), which do not represent a financial liability to issuers or any other third party.
It should be noted that, in addition to the supplemental disclosure required for our investors, we also provide adjusted numbers to our current Canadian GAAP statements, such that they are more consistent with current IAS 18, for purposes of regulatory reporting, banking agreements and performance management, as there is general agreement that IAS 18 provides a better representation of financial performance and status in this instance.

Below is our specific response to Question 2 of the ED.

**Question 2:** The Boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?

As explained in the Application Guidance of the ED, an entity would treat a non-refundable upfront fee as an advanced payment for future goods or services if such fee does not result in a transfer of a distinct good or service to the customer. In situations where the good or service is not sold separately, the good or service would be considered distinct only if it has a distinct function and a distinct profit margin.

In concept, we agree with the requirement that a good or service would be considered a separate performance obligation if it has a “distinct function”. However, we believe this assessment would involve a significant degree of judgment, particularly in a service arrangement where no tangible asset is transferred to the customer. For example, in TMX’s situation, Listing Fees are charged for services rendered in connection with the listing of the customer’s equity securities. Our view is that this fee is for a service that has a distinct function as distinct effort is performed and economic benefits are generated for the customer as the listing facilitates the ability to raise capital or conduct certain capital transactions. On the other hand, as the Listing Services are generally not sold separately, it could be argued that this benefit cannot be separated from the ongoing listing benefits and therefore, the listing does not have utility on its own. Given the degree of subjectivity in making this determination, we are concerned that an accounting treatment may result that is inconsistent with the economics of the underlying transactions and the substance of the arrangement. As noted above, in the case of TMX, we believe that a requirement to defer Listing Fees would result in financial statements that do not reflect the economic reality of the situation and do not, without supplemental information, provide useful and relevant information to investors.

In terms of “distinct profit margin”, the proposed guidance states that a good or service has a distinct profit margin if it is subject to distinct risks and the entity can separately identify the resources needed to provide the good or service. First, we do not believe this requirement is necessary in determining whether a good or service is distinct as this requirement focuses specifically on the costs of the arrangement, which contradicts with the concept of allocating contract consideration to the different performance obligations based on standalone selling price. Further, we do not believe the proposed guidance clearly explains what would be considered “distinct risk” as the goods or services delivered under the same contract would likely share
some common risks. In addition, in a service arrangement, it might not be realistic for an organization to have different resources for the different services under the arrangement.

Based on the foregoing, we believe the Board should remove the “distinct profit margin” requirement and provide more clarity around what constitutes “distinct function”.

Our view is that if “distinct function” is defined such that substantive effort must have been expended by the seller, it would result in an accounting treatment that better matches the true economics of the transaction. We also believe that it is important to demonstrate that future deliverables will result in incremental compensation reflecting the estimated value. We believe that this recommendation is in line with the existing guidance under IAS 18 which permits revenue recognition of non-refundable upfront fees in situations where the entity does not have further obligations to provide additional services or products either free of charge or at a discount, provided no significant uncertainty as to its collectability exists.

Another approach that would, in our view, also result in accounting that better matches the true economics of the transaction would be to define “distinct function” such that it is determined based on whether economic benefit or utility has been provided to the customer. We believe that benefit and utility can be provided to customers through delivering goods and/or services that are not, or could not, be sold separately. In our view, this could also lead to accounting that is consistent with the IAS 18 treatment noted above.

Please contact me if you have any questions.

Sincerely,

Michael Ptasznik
Chief Financial Officer,
TMX Group Inc.