

**MONTRÉAL EXCHANGE**

**Regulatory Division  
Newsletter**

**2<sup>nd</sup> Edition**

**2021**



**THIS NEWSLETTER COVERS  
THE PERIOD FROM JULY 1  
TO DECEMBER 31, 2021.**

Bourse de Montréal Inc. (the “Bourse”) is recognized by the Autorité des marchés financiers (the “Autorité”) as an exchange and a self-regulatory organization. The Regulatory Division (the “Division”) is a separate business unit of the Bourse responsible for carrying out its regulatory functions and operations. The Division consists of four services: Core Regulatory Functions, Strategy and Regulatory Outreach, Enforcement and Market Regulation, and Systems and Data.

The Division publishes a bi-annual newsletter to share information of a general nature on regulatory activities, and takes advantage of this opportunity to share best practices in regulatory compliance.

Enjoy!

## Topics

Events Organized by the Division

The Division’s Initiatives

Profile of Approved Participants

Regulatory Activities

- Examinations
- Market Analysis
- Investigations
- Enforcement
- Imposed Late Filing Fees

Recommended Best Practice

Publications of the Division



# Events Organized by the Division

- The Division's Regulatory User Group held virtual meetings on October 21 and December 2, 2021.
  - The next two User Group meetings are scheduled for February 24 and May 26, 2022.
- \* Given the pandemic, in the second half of 2021, there were no in-person events organized by the Division.

## The Division's Initiatives

### Participant Portal

The Participant Portal (the "Portal") is a secure and user-friendly single point of contact for Approved Participants and Foreign Approved Participants (collectively, "Participants"). It facilitates access to regulatory documents as well as the submission of applications, reports and notices to the Division. The paper and online forms relating to the processes listed below are no longer available on the Division's website. The Division will only process requests sent through the Portal.

As of now, the Portal has the following functionalities:

- Administering access to the Portal;
- The Approved Person module which includes the application forms, transfer forms, uniform termination notice (UTN) form, an alert listing the MX-IDs to be deleted following a UTN submission, an export feature, and access to the training courses and exams to trade on the Bourse;
- The MX-ID module for requesting new MX-IDs, transfer requests, cancelling existing MX-IDs and an export feature;
- Modules allowing the filing of notices of non-compliance (Gatekeeper) and submitting corrections to the identification of orders (Order Marker Corrections);
- The secure transfer of documents (inbound & outbound) between the Division and Participants;
- The DEA Client module which includes a modifiable list of the Participant's clients with their unique identifiers, including a comprehensive export function;
- The Designated Representative and Signatory module which allows for the nomination, update, and termination of Designated Representatives and signatories including notifications and automatic reminders;

- The Scorecard module which allows the Division to share its observations with Participants;
- The new Participant approval module which facilitates submissions of requests for approval as Canadian Approved Participants and foreign Approved Participants.

Portal users have access to advanced reporting features for MX-ID modules, Approved Persons and clients with Direct Electronic Access (DEA Clients). They can also consult the list of key Portal contacts.

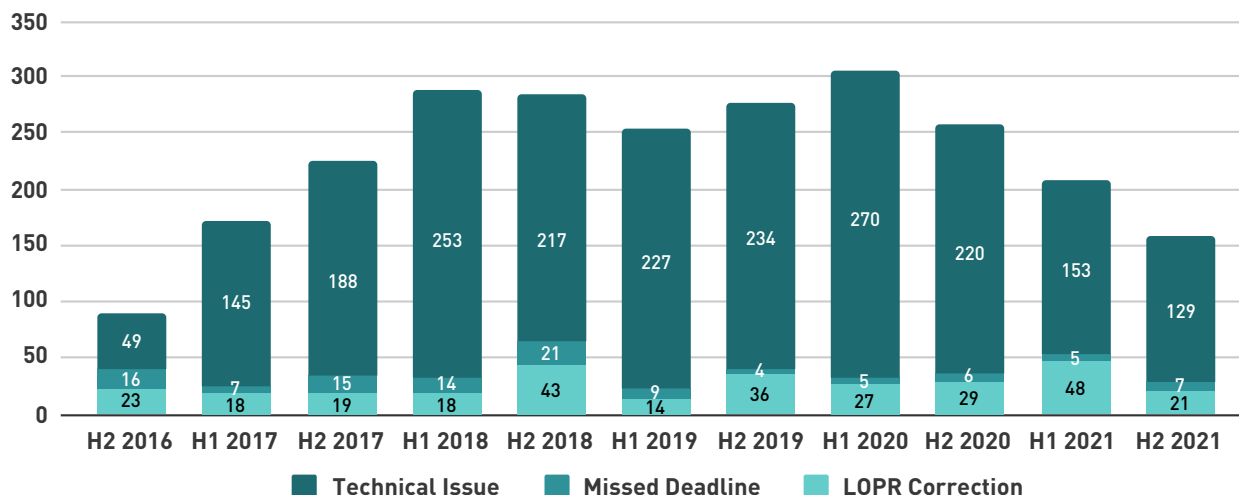
For all modules, training capsules are available on the [Participant Portal](#).

### Participant Scorecard

On July 30, 2021, the Division issued the H1 2021 Participant Scorecard (the "Scorecard") via the Portal. The Scorecard is one way for the Division to share its observations with Participants and help them track their level of compliance with certain regulatory requirements of the Bourse. The Scorecard is published bi-annually.

The Division introduced [LOPR Notification Portal](#) submissions to the H1 2021 Scorecard. The LOPR Notification Portal is to be used only in exceptional circumstances (see the FAQ – Reports of Accumulated Positions). In the second half of 2021, the Division noted a total of 157 submissions.

**FIGURE 1**  
**Total Number of LOPR Notification Portal Submissions, by Exception Type**



## COVID-19 Pandemic: Measures Taken by the Division

Following the outbreak of the pandemic (COVID-19) in the first quarter of 2020, the Division assessed the situation and published its first circular ([041-20](#)) on March 11, 2020. The circular highlighted the Division’s expectation regarding Participants’ business continuity plans and addressed concerns of possible restrictions associated with invoking these plans due to COVID-19. The Division also published additional guidance relating to certain regulatory requirements (circular [043-20](#)) and granting additional reporting delays (circular [049-20](#)).

The alternative measures described in circular [043-20](#) and the additional 30-minute delay granted in circular [049-20](#) when reporting Large Open Position Reports (“LOPR”) and Exchange of Futures for Related Products (“EFRP”) Transactions have been subsequently extended. These measures are in place until March 31, 2022 (circular [218-21](#)).

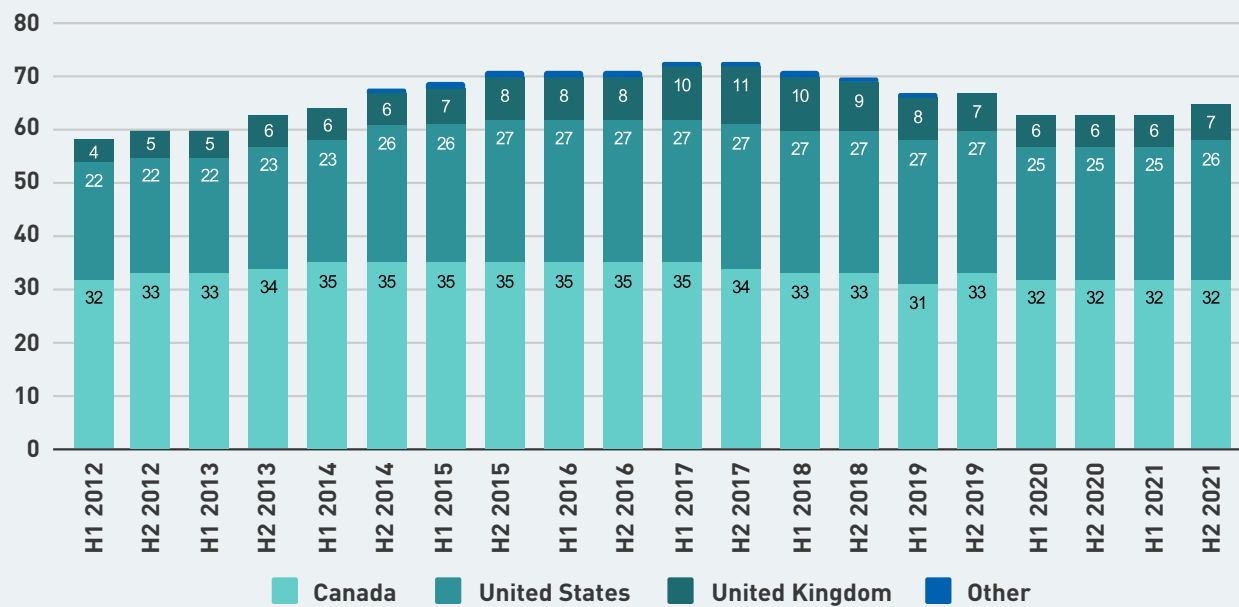
## Position Limits

Earlier in 2021, the Bourse self-certified the Rules regarding position limits and these amendments came into effect on June 30, 2021 (circular [021-21](#)). In conjunction with the amendments, the Division introduced a new [position limit file](#) consolidating position limits and reporting thresholds for all Listed Products and ceased publishing its legacy position limit files on September 30, 2021. The Division then published an [FAQ](#) to clarify and illustrate the applicability of position limits.

# Profile of Approved Participants

As at December 31, 2021, following two admissions during the second half of 2021, the Bourse had a total of 65 Participants. The following figure illustrates the number of Participants, by jurisdiction.

**FIGURE 2**  
**Total Number of Participants, by Jurisdiction**



# Regulatory Activities

## Examinations

The Examinations service conducts examinations of the derivatives trading of the Participants of the Bourse. The purpose of these examinations is to assess the compliance of Participants of the Bourse with its Rules.

From July 1 to December 31, 2021, the Division performed 12 examinations leading to observations. Recurring observations include:

- Incomplete audit trail documentation for EFRPs transactions (see [Article 6.208](#));
- Policies and procedures incomplete or not updated with new rulebook article references (see [Article 3.100](#));
- Large Open Position Reporting (LOPR) discrepancies (see [Article 6.500](#));
- Inadequate account information in Large Open Position Reporting (LOPR) (see [Article 6.500](#));
- Failing to provide evidence of annual testing of Automated Order Systems (see [Article 3.5](#) and [Regulation 23-103](#));
- Inadequate annual evaluation of clients with direct electronic access (see [Article 3.5](#));
- Failing to inform the Bourse of DEA client identifiers (see [Article 3.5](#));
- Failing to have Electronic Trading Agreements signed with DEA clients (see [Article 3.5](#)); and
- Failing to register employees having access to the Electronic Trading system (see [Article 3.400](#)).

**DURING THE PERIOD FROM JULY 1 TO DECEMBER 31, 2021, THE DIVISION CONDUCTED A TOTAL OF 12 EXAMINATIONS LEADING TO FINDINGS.**

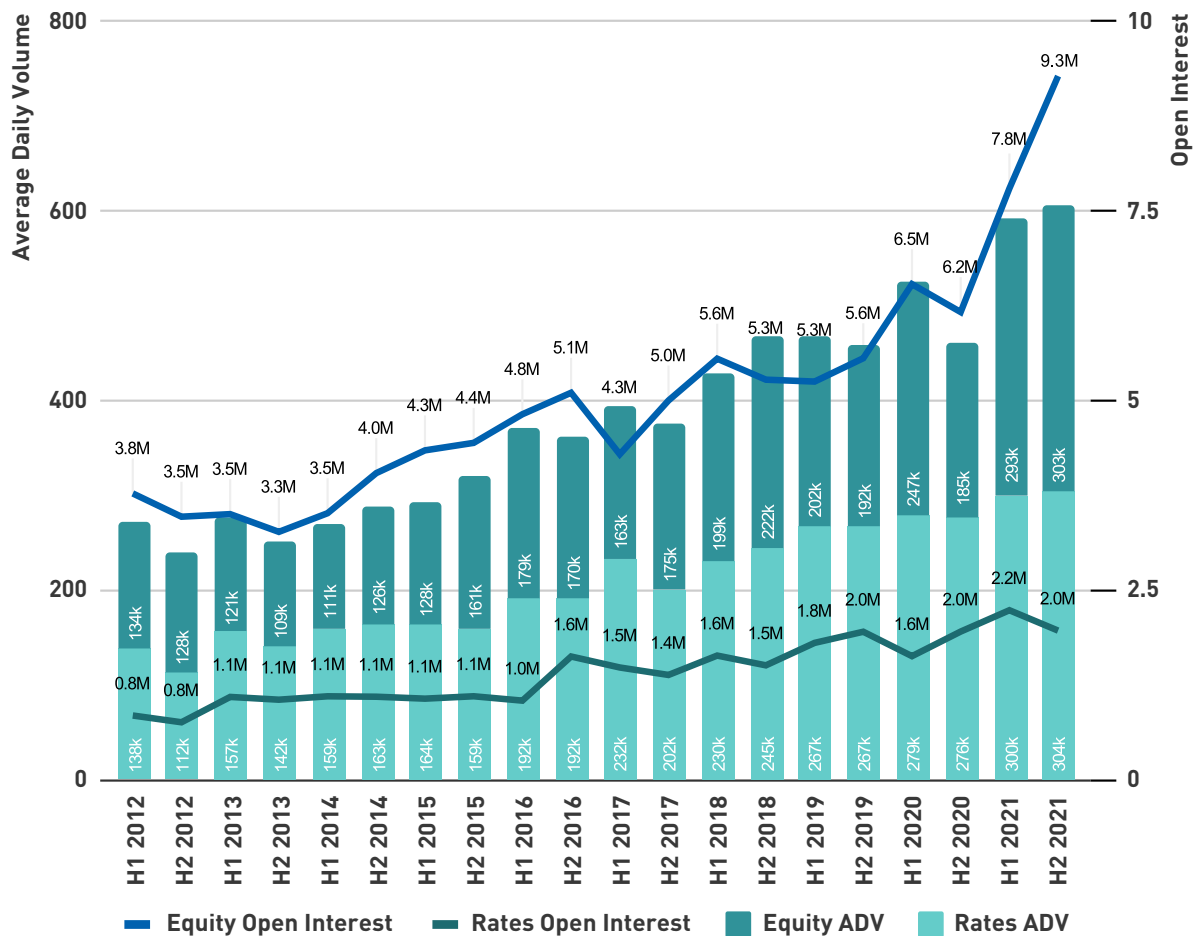
## Market Analysis

Among the core regulatory functions, the Market Analysts perform market surveillance to detect potential breaches of regulations and monitor insider trading activities on the options market of the Bourse. The Market Analysis unit also reviews trading on the Bourse to determine whether Participants are complying with trading rules and principles, and whether these trades involve abusive or manipulative trading practices.

For the second half of 2021, an average daily volume of 607,000 contracts was observed compared to 593,000 contracts for the first half of 2021, an increase of 23%. In the second half of 2021, the Division monitored 11.5 million trades executed on the Bourse.

The Market Analysts are also responsible for conducting preliminary reviews of all complaints received from various sources. The Division received three complaints in the period from July 1 to December 31, 2021, from Participants and the Market Operations Department.

**FIGURE 3**  
**Average Daily Volume and Open Interest, by Asset Class**



**IN THE SECOND HALF OF 2021, THE DIVISION RECEIVED A TOTAL OF THREE COMPLAINTS.**

## Investigations

The Division may open an investigation when a potential regulatory violation has been detected during an examination or following a market analysis.

From July 1 to December 31, 2021, the Division opened two investigations concerning Access to the Bourse’s trading system, which may have contravened Articles 3.4, 3.100, and 3.400 of the Rules of the Bourse. The Division also opened one investigation regarding Exchange of Futures for Related Products, which may have contravened Articles 6.208 and 3.100 of the Rules of the Bourse.

During the same period, the Division completed four investigations. Two investigations were related to Access to the Bourse’s trading system, while two were regarding potential market manipulation.

## IN THE SECOND HALF OF 2021, THE DIVISION OPENED A TOTAL OF THREE INVESTIGATIONS AND COMPLETED FOUR INVESTIGATIONS.

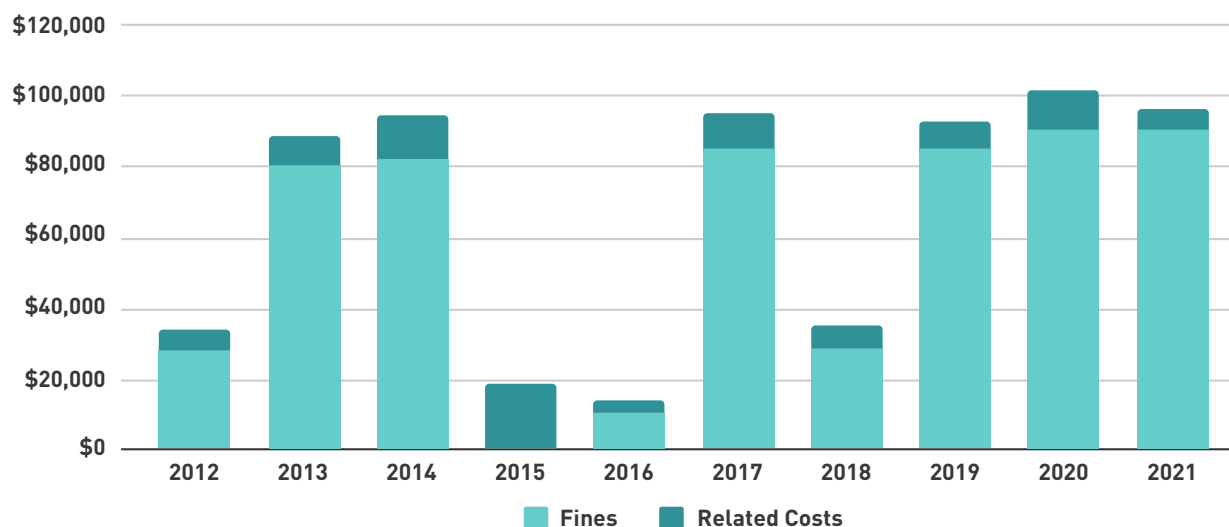
### Enforcement

Disciplinary proceedings may be initiated when, following an investigation, the Division concludes that there has been an offence under the Rules of the Bourse or to regulation (for example, [Regulation 23-103 respecting Electronic Trading and Direct Electronic Access to Marketplaces](#)).

### Disciplinary Decisions

In the second half of 2021, the Division published one disciplinary decision (Circular [156-21](#)). In the [offer of settlement](#), BNP Paribas Securities Corp. acknowledges having contravened Articles [3.4](#), [3.400](#), and [3.100](#) of the Rules of the Bourse and a fine of \$90,000 and \$6,070 in related costs were accepted by the Hearing Panel.

**FIGURE 4**  
**Fines and Related Costs Imposed as Part of Disciplinary Matters**



### Fines for Minor Violations

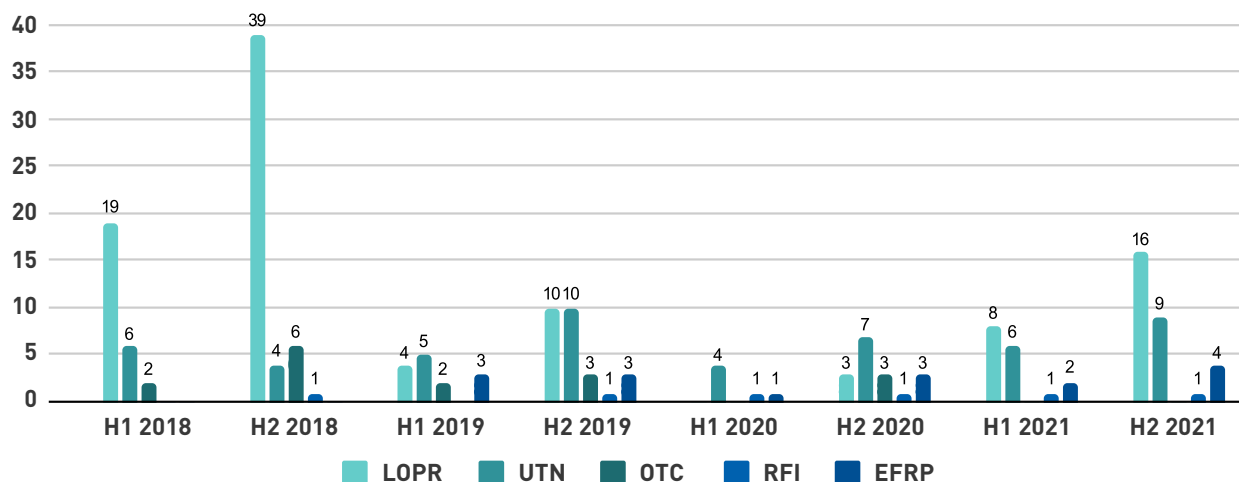
In the second half of 2021, the Division did not impose fines for minor violations.

## ONE DISCIPLINARY DECISION WAS PUBLISHED IN THE SECOND HALF OF 2021.

### Imposed Late Filing Fees

During the second half of 2021, the Division imposed late filing fees of \$8,500 for late Large Open Position Reports (“LOPR”), \$9,900 for Uniform Termination Notices submitted more than ten days after the termination date (“UTN”), \$250 for late responses to information or documentation requested by the Division (“RFI”), and \$1,350 for Exchange of Futures for Related Product transactions not reported within the prescribed time limit (“EFRP”). No late filings were observed for bi-monthly reports on over-the-counter options (“OTC”). Figure 5 illustrates the number of late filings.

**FIGURE 5**  
**Number of Late Filings, by Type**



# Best Practice Recommendation

## Compliance PPM Structure

The Compliance Policy and Procedure Manual (“PPM”) serves as the primary reference guide for internal policies and procedures describing processes that prevent, or at least detect, potential breaches of applicable rules and regulations. It should illustrate the Approved Participant’s detailed practices and demonstrate the understanding of regulatory compliance obligations.

The following are best practice recommendations for document development and rollout:

- Standardize policies and procedures in form and format to avoid confusion
- Make documents user friendly
- Ensure the document does not conflict with other policy documents (cross reference them)
- Define all key terms used in the document

How to roll out a Compliance PPM:

- Establish and adopt written policies, procedures and standards of conduct
- Create program oversight
- Provide staff training and education
- Establish communication channels at all levels
- Implement a monitoring and auditing process



**Header Block** Should include, but not necessarily limited to: (a) the title of the document; (b) the department responsible for drafting, reviewing and enforcing the document; (c) effective date of the document; (d) approving authority;

**Version Control** Illustrates whether it replaces or modifies an existing policy or procedure (if an issue arises, maintaining the dates of implementation and subsequent revisions/modifications are essential);

**Background** Introduces the context, outlining rules, regulations, standards, compliance guidance, etc. This section should assist the targeted audience's understanding and application of the policy.

**Purpose** Outlines what the policy document is designed to achieve: "To promote...., To comply...., To ensure...., etc.;

**Definitions** Terminology/key terms used in the document that require understanding and clarification in order to comply with the document;

**Procedures** Provides detailed procedural requirements, methods and guidance on how the target audience is expected to act or perform functions;

**References / Citations / Related Policies** Used for legal and regulatory citations, as well as citing other internal documents or written guidance that may overlap in nature.

Key concepts to include (at a minimum)<sup>1</sup>:

### **Compliance and Supervision**

- Policies and Procedures
- Compliance Management and Supervisory Responsibilities
- Supervision/Surveillance Evaluation
- Error Account

### **Electronic Trading Rule**

- Risk Management & Supervisory Controls, Policies & Procedures
- Pre-Trade Controls
- Annual Assessments
- Approved Persons (Access / Notice of Termination)
- Direct Electronic Access ("DEA")
- Electronic Trading Agreements
- DEA Annual Assessment
- DEA Client Unique Identifiers
- Automated Order System ("AOS") Requirements

### **Trading**

- Account Type Markers
- Blocks Trades
- Exchange of Futures for Related Products ("EFRP")
- Trade Ticket & Time Stamping
- Phone Recordings
- Average Pricing

### **Large Open Position Reporting**

- Large Open Position Reporting ("LOPR") Requirements
- LOPR Supervision

### **Operations**

- Equity Options Exercises and Assignments (Methodology)
- Options on Futures Exercises and Assignments (Methodology)
- Off-Exchange Transfers of Existing Positions in Listed Products
- Position Limit Monitoring

<sup>1</sup> Based on Participant's business model and trade activities.

# Publications of the Division

## Approved Participant Admissions and Resignations

- [Circular 171-21](#): Admission of a Foreign Approved Participant - Squarepoint OPS LLC
- [Circular 210-21](#): Admission of a Foreign Approved Participant - XTX Markets Trading Limited

## Position Limits

- [Circulars 133-21](#), [150-21](#), [153-21](#), [159-21](#), [174-21](#), [196-21](#), [202-21](#), and [211-21](#)

## LOPR

- [Circular 158-21](#): Large Open Position Reporting – System Availability and Reporting Requirements Reminder
- [Circular 161-21](#): Reports of Accumulated Positions on Derivative Instruments (LOPR) - Amendment to Holiday Schedule - LOPR Reportable Dates
- [Circular 170-21](#): Large Open Position Reporting System
- [Circular 204-21](#): Reports of Accumulated Positions on Derivative Instruments (LOPR) - Reminder Concerning LOPR Reportable Dates

## Amendments to the Rules and Policies of the Bourse

- [Circular 172-21](#): Amendment to the List of Fees of Bourse de Montréal Inc. (effective November 1<sup>st</sup>, 2021)
- [Circular 206-21](#): Amendment to the List of Fees of Bourse de Montréal Inc. (effective January 1<sup>st</sup>, 2022)

## Division's Regulatory User Group

- [Circular 173-21](#): Regulatory User Group - Members List - Addendum
- [Circular 187-21](#): Regulatory User Group - Members List - Addendum

## Enforcement

- [Circular 156-21](#): Disciplinary Decision — Offer of Settlement - BNP Paribas Securities Corp.

## Alternative Measures and Reporting Delays

- [Circular 152-21](#): Extension until January 31, 2022 - Alternative Measures and Reporting Delays - COVID-19
- [Circular 218-21](#): Extension Until March 31, 2022 - Alternative Measures and Reporting Delays - COVID-19

## FAQs and Guidelines

- [Circular 162-21](#): Frequently Asked Questions – Trading OTC Options
- [Circular 168-21](#): Frequently Asked Questions – Position Limits
- [Circular 212-21](#): Frequently Asked Questions – Reports of Accumulated Positions

## Other

- [Circular 135-21](#): Publication of the Newsletter from the Regulatory Division
- [Circular 143-21](#): The Regulatory Division Participant Scorecard
- [Circular 175-21](#): Prearranged Transactions - Order Priorities - Reminder
- [Circular 176-21](#): Regulatory Division's Participant Portal - Enhancements
- [Circular 205-21](#): Name Change of an Approved Participant - Pavilion Global Markets Ltd.

# For more information



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