

MONTREAL EXCHANGE - REGULATORY DIVISION

Newsletter

The Montreal Exchange 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 three units: examinations, market analysis and investigations, and regulatory and disciplinary affairs.

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 observed best practices in regulatory compliance.

This newsletter covers the period from July 1 to December 31, 2019 and, for certain sections, provides a summary of 2019.

Enjoy!

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Events organized by the Division

- A meeting was held in Toronto on October 2, 2019 and a phone meeting was held on December 11, 2019 with the Division's Regulatory User Group.
- A meeting with the AI sub-group of the Division's Regulatory User Group on questions relating to artificial intelligence and machine learning was held on December 2, 2019.
- The Division held its conference "Parlons dérivés / Derivatives Exchange" on November 19, 2019 in Montreal and November 21, 2019 in Toronto.

Publications of the Division in 2019

- **Approved Participant admissions and resignations** (circulars [016-19](#), [025-19](#), [059-19](#), [068-19](#), [108-19](#), [109-19](#), [125-19](#), [126-19](#), [127-19](#), [140-19](#), [141-19](#) and [170-19](#))
- **Position limits** (circulars [009-19](#), [022-19](#), [048-19](#), [051-19](#), [052-19](#), [063-19](#), [069-19](#), [088-19](#), [093-19](#), [094-19](#), [098-19](#), [107-19](#), [112-19](#), [116-19](#), [120-19](#), [131-19](#), [132-19](#), [142-19](#), [153-19](#), [161-19](#), [173-19](#) and [174-19](#))
- **LOPR and the Gatekeeper portal**
 - Reports pertaining to the accumulation of positions for derivative instruments (LOPR) (circular [037-19](#))
 - Reports Pertaining to the Accumulation of Positions for Derivative Instruments (LOPR) - Reminder Concerning LOPR Reportable Dates (circular [157-19](#))
- **Amendments to the Rules and Policies of the Bourse**
 - Amendment to article 4.308 of the Rules of the Bourse (circulars [029-19](#), [044-19](#) and [061-19](#))
 - Amendment to article 6.208 of the Rules of the Bourse (circular [079-19](#))
 - Amendment to article 6.200 of the Rules of the Bourse (circular [075-19](#))
- **List of Fees of the Bourse**
 - Amendments to the List of Fees (effective March 1, 2019) (circular [023-19](#))
 - Amendments to the List of Fees (effective May 1, 2019) (circular [062-19](#))
 - Amendments to the List of Fees of Bourse de Montréal Inc. (Effective January 1, 2020) (circular [160-19](#))
- **Participant's Portal** (circulars [021-19](#), [056-19](#), [090-19](#), [092-19](#) and [167-19](#))
- **Division's Regulatory User Group** (circulars [011-19](#), [026-19](#) and [040-19](#))
- **Others**
 - Off exchange transfer publication of guidelines (circular [012-19](#))
 - Compliance priorities and 2019 Regulatory Division's initiatives (circular [028-19](#))
 - Publication of the Division's Newsletter No. 1 for 2019 (circular [032-19](#))
 - Comparative analysis by the Division of market data in the context of extended trading hours (circular [055-19](#))
 - Launch of the Regulatory Division Participant Scorecard (circular [103-19](#))
 - Publication of the Newsletter From the Regulatory Division (circular [104-19](#))
 - Frequently Asked Questions - Self-Matching of Orders and Wash Trading (Article 7.5) (circular [130-19](#))
 - New Mandatory Training for Anyone Interested in Becoming an Approved Person at Bourse de Montréal Inc. (circular [134-19](#))

The Division's initiatives

Participant Portal

The Division launched the Participant Portal (the “Portal”) in the first quarter of 2019. The Portal is a secure and user-friendly single point of contact for Approved Participants. It facilitates access to regulatory documents as well as the submission of applications, reports and notices to the Division.

As of date the Division has made available the following functionalities:

- Administering access to the Portal;
- Approved person module which includes the application forms, transfer forms, universal termination notice (UTN) form, and access to the training courses and exams to trade on the Bourse;
- An MX-ID module for requesting new IDs, transfer requests and cancelling existing IDs;
- A module allowing the filing of notices of noncompliance (Gatekeeper) and for submitting corrections to the identification of orders (order marker corrections);
- The secure transfer of documents between the Division and Approved Participants.

As of December 2019, the list of MX-IDs and the list of Approved Persons can be downloaded in .xlsx format.

For some of these modules, training capsules are available on the Division's [website](#) allowing users to familiarize themselves with them.

In the course of 2020, a series of improvements will be made to these functionalities and new functionalities will also be made available.

Artificial intelligence and machine learning

On December 2, 2019, the Division held its second meeting with the AI sub-group of the Division's Regulatory User Group on questions relating to artificial intelligence and machine learning. There were four presentations:

- Projects in which the Division is participating;
- AI adoption: main issues and suggested methodology (by Seed AI);
- Anomaly detection in options markets (IVADO - professors from Université de Montréal and Polytechnique Montréal);
- AI Governance in banking (by National Bank of Canada).

The Division plans to hold a third meeting in the second quarter of 2020.

New mandatory training for anyone interested in becoming an Approved Person

The Division has launched a new training course for anyone wishing to get acquainted with the ecosystem in which the Bourse operates, able to identify the various stakeholders with whom the trader may interact, able to identify the main functionalities of the SOLA system (the Bourse's trading platform) along with the different stages of an order, and also expand his knowledge of the Rules applicable to the Products. This training consists of 3 modules and 2 exams (one for each product type listed on the Bourse).

The training modules are free of charge, thus Approved Participants can share with whoever is interested in getting acquainted with trading on the Bourse and its Rules.

As of November 1, 2019, to obtain the status of Approved Person in accordance with the Rules, an individual will have to complete the new training and pass the exam associated with the listed products on the Bourse that the individual wishes to trade. For each exam the fee is \$250.

Participant Scorecard

On July 31, 2019 the Division published its first version of the Regulatory Division Participant Scorecard (the "Scorecard") via the Participant portal. The Scorecard is one way for the Division to share its observations with Approved Participants and help them track their level of compliance with certain regulatory requirements of the Bourse. The Scorecard will be published bi-annually.

Any comparison to other Approved Participants' practices, or level of compliance is made on an anonymous basis. Although this Scorecard is not intended to be interpreted as a formal warning or confirmation of Approved Participant's compliance, the Division invites each Approved Participant to pay particular attention to its content.

The content of the Scorecard and its frequency are likely to evolve over time based on the Division's and Approved Participants' experience and needs. As such, Approved Participants can expect future versions of the Scorecard to be more customized and tailored to their business model and activities.

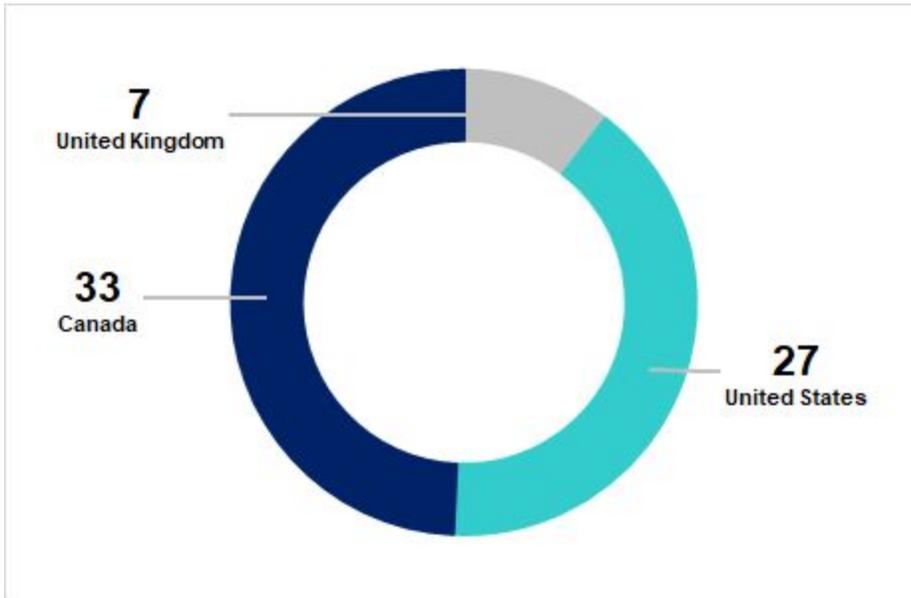
Profile of Approved Participants and Persons

Approved Participants

As at December 31, 2019, following admissions and resignations of Approved Participants, the Bourse had a total of 67 Approved Participants, distributed geographically as follows:

Figure 1

Approved Participants as at December 31, 2019

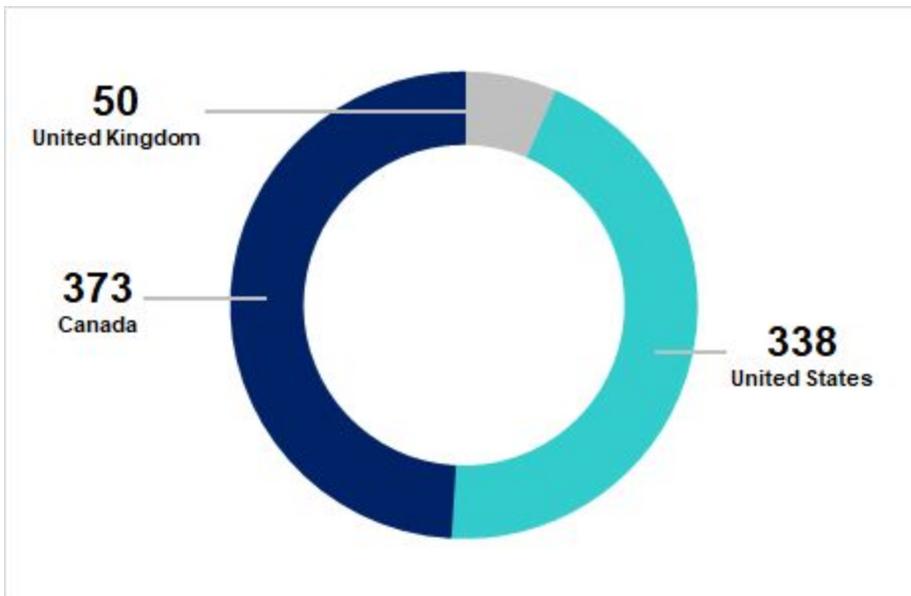


Approved Persons

In the third and fourth quarters of 2019, the Division processed 78 new applications for Approved Persons as well as 55 termination notices¹. As of December 31, 2019 the Bourse had 761 Approved Persons, distributed geographically as follows:

Figure 2

Approved Persons as at December 31, 2019



¹ Uniform Termination Notice (UTN)

Regulatory activities

Examinations

The Examinations service manages examinations of the derivatives trading of the Approved Participants of the Bourse. The purpose of these examinations is to validate the compliance of Approved Participants of the Bourse with its Rules.

From July 1 to December 31, 2019, the Division performed 12 examinations leading to observations. Recurring observations include:

- Inaccurate policy and procedure manuals (see [article 3.100](#));
- Large Open Position Reporting (LOPR) discrepancies (see [article 6.500](#));
- Inadequate annual evaluation of clients with direct electronic access (see [article 3.5](#)); and
- Failure to obtain approval from the Bourse as an Approved Person before granting access to the Electronic Trading System to one or more employees (see [article 3.400](#)).

During the period from July 1 to December 31, 2019, the Division conducted a total of 12 examinations leading to findings. In 2019, the Division performed a total of 26 full examinations.

Market Analysis and Investigations

The Market Analysis unit performs market surveillance to detect potential breaches of regulations and monitors insider trading activities on the options market of the Bourse. The Market Analysis unit also reviews trading on the Bourse to determine whether Approved Participants are complying with trading rules and principles, and whether these trades involve abusive or manipulative trading practices.

An increase of 3.55% was observed in the average daily trading volume compared to the same period of 2018, for an average daily volume for 2019 of 462 828 contracts compared to 446 984 contracts in 2018. In the second half of the year, from July 1 to December 31, 2019, the Division monitored over 10 047 484 trades executed on the Bourse.

The Market Analysis unit is also responsible for conducting preliminary reviews of all complaints received from various sources. The Division received seven complaints in the period from July 1 to December 31, 2019.

In 2019, the Division received 13 complaints, 1 of which was from a client.

The Investigations unit 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, 2019, the Division opened two investigations, in particular concerning access to the trading system of the Bourse by employees of Approved Participants when those

employees were not Approved Persons, and the maintenance of a full and complete records and documentary evidence relating to the EFRP. During the same period, the Division completed six investigations.

In 2019, the Division opened fifteen investigations concerning electronic trading (National Instrument 23-103), the supervision of clients with direct electronic access, and potential market manipulation activity such as front running and manipulation of the closing price.

Disciplinary proceedings

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](#)).

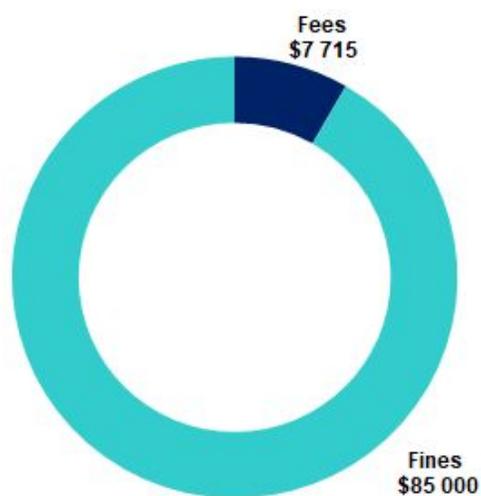
Disciplinary decisions

During the period from July 1 to December 31, 2019, a disciplinary decision was rendered².

In 2019, offences to the Rules of the Bourse that were subject to a disciplinary decision involved an Approved Participant providing access to its employees to the electronic system of the Bourse without having obtained the prior approval of the Bourse and the failure to establish and maintain a system to supervise the activities of each employee that is reasonably designed to achieve compliance with the Rules and Policies of the Bourse .

Figure 3

Fees and fines imposed as part of disciplinary matters in 2019



² Decision by the Disciplinary Committee was published via circular on January 14, 2020 (Circular [005-20](#))

Fines for minor violations

In 2019, the Division did not use the process for imposing fines for minor violations.

One disciplinary matter was settled in 2019. For this disciplinary matter, the fines paid by the participant totalled to \$85,000, plus \$7,714.99 for the reimbursement of costs. All these amounts were collected by the Division and paid into the Fine Fund.

Imposition of late fees

The following table provides detailed information on all the fees imposed by the Division in the third and fourth quarters of 2019 for the late filing of documents.

Figure 4

Late Fees	Occurrences	Participants	Total amount imposed
Termination notice submitted more than 10 days after the termination date ³	10	6	\$18,200
Late reporting of corporate amendments	0	0	\$0
Report pertaining to the accumulation of positions for derivative instruments (LOPR) ⁴	9	7	\$3,500
Bi-monthly report on options over-the-counter options (Rule Nine) ⁵	5	3	\$3,100
Information or document required by the Division ⁶	1	1	\$500
Exchange of Futures for Related Product (EFRP) transactions not reported within the prescribed time limit (article 6.208 (d) of the Rules of the Bourse) ⁷	3	3	\$300

Observed best practice in 2019

The Division favors a principles-based approach to supervision and compliance, and as such, has seen a variety of compliance solutions geared to respond to regulatory requirements and obligations. These solutions differ based on the nature and size of an Approved Participant's activity. A prudent and robust risk management, no matter the operational or structural complexity, often have practices in common.

One such practice is staying apprised of all communication disseminated by the Bourse and the Division. Therefore it is recommended to [subscribe](#) to receive email notifications of circulars published, and share with personnel the relevant information (e.g. regulatory amendments, guidelines, disciplinary actions), or by receiving and distributing operational and technical notices.

³ Four Canadian participant and two foreign participants

⁴ Two Canadian participants and five foreign participants

⁵ Three Canadian participants

⁶ One Canadian participant

⁷ Two Canadian participants and one foreign participant

Upcoming events organized by the Division

The Division's Regulatory User Group meetings

- February 27, 2020, meeting in Montreal
- May 27, 2020, conference call meeting
- October 1, 2020, meeting in Toronto
- December 8, 2020, conference call meeting

Division's Compliance Forum at the Canadian Annual Derivatives Conference

- June 8, 2020 in Montreal

"Derivatives Exchange / Parlons dérivés," organized by the Division

- November 2020 in Toronto (in English) and in Montreal (in French) (*dates will be confirmed*)

For more information:

REGULATORY DIVISION

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