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CIRCULAR 056-16

May 11, 2016

REQUEST FOR COMMENTS

MARKET MAKING PROGRAMS REFORM

AMENDMENTS TO ARTICLES 6395 AND 6820 OF RULE SIX OF BOURSE DE MONTRÉAL INC. AND OTHER ANCILLARY RULES

The Rules and Policies Committee and the Special Committee of Bourse de Montréal Inc. (the “**Bourse**”) have approved amendments to Articles 6395 and 6820 of Rule Six of the Bourse, as well as other ancillary rules, in order to modernize the rules governing market making activities on its equity and fixed income products.

Comments on the proposed amendments must be submitted within 45 days following the date of publication of this notice, at the latest on June 27, 2016. Please submit your comments to:

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A copy of these comments must also be forwarded to the *Autorité des marchés financiers* (the “**Autorité**”) to:

M^c Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Québec) H4Z 1G3
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Please note that comments received by one of these recipients will be transferred to the other recipient and that the Bourse may publish a summary of such comments as part of the self-certification process concerning this file.

Appendices

You will find in the appendices an analysis as well as the text of the proposed amendments. The implementation date of the proposed amendments will be determined by the Bourse, in accordance with the self-certification process as established by the *Derivatives Act* (CQLR, chapter I-14.01).

Regulatory Amendment Process

The Bourse is authorized to carry on business as an exchange and is recognized as a self-regulatory organization (SRO) by the Autorité. The Board of Directors of the Bourse has delegated to the Rules and Policies Committee of the Bourse its powers to approve and amend the Rules, the Policies and the Procedures, which are thereafter submitted to the Autorité in accordance with the self-certification process as determined by the *Derivatives Act* (CQLR, chapter I-14.01).

In its SRO capacity, the Bourse assumes market regulation and supervision responsibilities of its approved participants. The responsibility for regulating the market and the approved participants of the Bourse comes under the Regulatory Division of the Bourse (the Division). The Division carries on its activities as a distinct business unit separate from the other activities of the Bourse.

The Division is under the authority of a Special Committee appointed by the Board of Directors of the Bourse. The Special Committee is empowered to recommend to the Board of Directors the approval or amendment of some aspects of the Rules of the Bourse governing approved participants. The Board of Directors has delegated to the Rules and Policies Committee of the Bourse its powers to approve or amend these Rules upon recommendation from the Special Committee.



MARKET MAKING PROGRAMS REFORM

AMENDMENTS TO ARTICLE 6395 AND 6820 OF RULE SIX OF BOURSE DE MONTRÉAL INC. AND OTHER ANCILIARY RULES

TABLE OF CONTENTS

I.	SUMMARY.....	2
II.	ANALYSIS.....	2
	a. Background.....	2
	b. Description and Analysis of Market Impacts.....	4
	c. Comparative Analysis	7
	d. Proposed Amendments.....	8
III.	AMENDMENT PROCESS	8
IV.	IMPACTS ON TECHNOLOGICAL SYSTEMS	8
V.	OBJECTIVES OF THE PROPOSED ADMENDMENTS.....	8
VI.	PUBLIC INTEREST	9
VII.	EFFICIENCY.....	9
VIII.	PROCESS.....	9
IX.	ATTACHED DOCUMENTS	9

I. SUMMARY

Bourse de Montréal Inc. (the “Bourse”) is proposing to modernize the rules governing market making activities on its equity and fixed income products. The most significant changes proposed include expanding market maker eligibility to include clients of approved participants¹ that have been authorized to electronically transmit orders to the Bourse through the systems of an approved participant in compliance with the rules of the Bourse (hereinafter, “clients”), clarifying the application and selection process, and subjecting all market making assignments to Market Maker Agreements that will contain all specific obligations and contractual remedies in case of default, while keeping in the rules themselves only general terms and conditions applicable to all market making programs.

The Bourse hereby proposes to merge and redraft articles 6395 and 6820 of its rules, which govern market making of options and futures contracts, as well as to modify and update other ancillary rules.

II. ANALYSIS

a. Background

Clients as market makers

Under the current rules of the Bourse, market making responsibilities for listed futures and equity options classes may only be assigned to approved participants who have agreed to undertake such responsibilities. This rule places a significantly restrictive limit on the pool of potential market makers on the Bourse, barring access to market making firms that are not eligible for approved participant status or for whom qualifying for approved participant status is not consistent with their structure or business model.

Generally, interest in market making comes from three sources: broker-dealers, proprietary trading firms and hedge funds. Most of the major broker-dealers active in the Canadian market are already approved participants of the Bourse and, at one point or another, have been approached to serve as a market maker for one of the Bourse’s products. Some of them have acted as market makers in the past but no longer do. We have seen a shift in market making activity from the banks to hedge funds and independent firms that are less likely to expend time and money to become an approved participant of the Bourse, for the sole purpose of making markets on a particular product. This new reality has resulted in fewer opportunities for the Bourse to achieve its objectives to provide better liquidity by increasing the number of market makers.

It is imperative for the Bourse to recruit market makers above and beyond its approved participants in order to provide better liquidity and price discovery. Canadian proprietary trading firms cannot become approved participants because they are most often not IIROC members and therefore do not qualify for approved participant status. In Canada, the costs and compliance

¹ For greater certainty, unless the context requires otherwise, when used throughout this analysis, approved participants also include foreign approved participants.

obligations of the IROC registration and of the status as approved participant of the Bourse are a significant obstacle for proprietary trading firms who would seek these registrations solely for the purpose of making markets on the Bourse (because their other activities do not trigger the obligations to obtain these registrations). Similarly, the costs and compliance obligations of foreign approved participant status are often not justifiable for foreign proprietary trading firms when they are solely for the purpose of being allowed to make markets on the Bourse.

Given the evolution in the recent years of the traditional activities of the broker-dealers and shift of market making activities to highly specialized market making firms, it is in the interest of all market participants for the Bourse to allow access to all potential market makers to improve onscreen liquidity.

With respect to the Bourse's futures markets, the Bourse has put in place numerous incentive programs to attract market makers on products that need revitalization. These programs have attracted specialized international firms that have the interest and know-how to make markets, but that were prevented from doing so because of the requirement to be an approved participant of the Bourse to make market. Similar to the situation described above, the size of the opportunity in Canada for these highly specialized international firms frequently does not justify the infrastructure and compliance investment required to become an approved participant or a foreign approved participant of the Bourse. This barrier to entry has limited the Bourse's choices of market making firms and deprived the market of high-quality participants that could provide much-needed liquidity.

Application and Selection Process

The current rules are also unclear about the process governing the application and selection of market makers. Article 6395 and 6820 do not address how a market maker is to apply or how the Bourse is to select a market maker. Consequently, the Bourse's practice has been somewhat unclear. The Bourse has issued requests for proposals from time to time in order to solicit, recruit and select market makers for its futures products. It has been a different process for the options markets where the Bourse selected market makers based on their qualifications, reputation and interest in the Canadian options market. While it may be justified and required to adopt a different application and selection process depending on the type of market making assignments, market participants should be given some indications as to where to find these details as opposed to no indication at all.

Market Maker Agreement

Finally, the current rules are also ambiguous in terms of imposing specific market making obligations. Paragraphs E and F of article 6395 describe market maker obligations for equity options in very general terms. Market makers have an obligation to engage in continuous market making to a reasonable degree, posting a reasonable number of contracts and with spreads that are not defined. These obligations are not specific enough and therefore make it difficult for the Bourse to assess and monitor the performance of its market makers on these products. The rights and obligations of the market maker and the Bourse with regards to options market making are also unclear given that the rules do not contemplate the execution of a formal Market Maker Agreement. On the other hand, article 6820 governing market makers for futures refers to a Market Maker Agreement between the market maker and the Bourse, but still incorporates

obligations and remedies directly in the rule. In this context, it may be unclear whether the agreement or the rules prevail and how such rules should be enforced.

b. Description and Analysis of Market Impacts

Clients as market makers

There is an overwhelming consensus among all market participants that there should be sufficient on-screen depth and liquidity to execute small or large orders. Accordingly, when in the best interest of the market, the Bourse should be able to assign market making responsibilities to the very best available market maker, be it an approved participant or a client. The opportunity cost of not engaging the best available market makers to provide greater liquidity and depth of book is detrimental to the quality and integrity of the market. This rule change will give the Bourse access to a new pool of sophisticated and experienced market makers that will only benefit and improve the overall quality and transparency of the market for all participants.

Liquidity provided by equity options market makers is essential to attract and preserve customer order flow that will contribute to the growth and the efficiency of the Canadian equity options market.

Due to the fact that the Bourse does not have exchange status with the Securities Exchange Commission, US-based approved participants are not entitled to have direct access to the Bourse's equity options market. Therefore US approved participants are not eligible to make markets on Bourse-listed equity options. In order to trade Bourse-listed equity options they must either trade as clients through non-US approved participants, or establish a legal entity in a jurisdiction such as Canada or the UK that permits direct access to Bourse equity options markets and apply for approved participant status. This barrier to entry deprives the Bourse of additional liquidity providers and market makers who could contribute to the growth and development of its options market. US liquidity providers have a natural interest in the Canadian options market but face this significant regulatory barrier to entry. Being active in Canada is the most logical next step when looking at expanding their operations to foreign markets. These firms are motivated and interested, and have the knowledge, experience and capacity to make markets. However, the cost-benefit analysis of becoming approved participants solely to make markets on the Bourse is simply not worthwhile for these firms.

The additional operational, infrastructure, communications and compliance costs of setting up foreign operations are enough to discourage most of these prospects from pursuing their interest in the Canadian options market. With waning interest from domestic firms, the Bourse's market is heavily concentrated with and extremely dependent on a few main market making firms.

A corollary of extending market maker eligibility to clients is the extension of the jurisdiction of the Regulatory Division over these market making clients. Given the central role played by market makers and the reliance placed on them by participants, trade practices of all market makers should be subject to the surveillance, monitoring and if and when needed, the disciplinary function of the Bourse.

The role of the Regulatory Division of the Bourse is to supervise the activity of all approved participants of the Bourse. Currently, the Regulatory Division does not have disciplinary powers over clients. While, as per the current rules of the Bourse, clients transmitting orders electronically to the Bourse through the systems of an approved participant are required to comply with all the regulations of the Bourse as if they themselves were approved participants, the Regulatory Division currently does not have the jurisdiction or power to enforce those rules against the clients directly. It is the responsibility of the approved participants to play an active role in ensuring their clients have knowledge of and comply with the rules of the Bourse.

Only an approved participant or client of an approved participant who has been authorized to electronically transmit orders to the Bourse through the systems of the Bourse in compliance with the Regulations of the Bourse will be eligible for market making assignments. The Bourse will implement market making programs and solicit eligible market participants for market making assignments. If clients are to be allowed to make markets, subsequently, the Bourse considers it in the best interest of all market participants that clients acting as market makers be subject to the jurisdiction of the Regulatory Division. By applying for a market maker assignment, the client of an approved participant agrees to be subject to the jurisdiction of the Regulatory Division for activities conducted during the term of the market making agreement. The client will be bound by and comply with all the trade practices obligations imposed upon approved participants under the Regulations of the Bourse, except to the extent the Division may exempt it from a specific duty or obligation. Therefore, the Bourse proposes to adopt regulation whereby clients acting as market makers be subject to the Regulatory Division's oversight and disciplinary powers for activities conducted during the term of their assignment(s), thereby holding all market makers, whether approved participants or clients, to the same standards. These standards promote market integrity and equality, as well as advocate increased transparency and accountability between the Bourse, the Regulatory Division, and all its designated market makers.

However, the Bourse shall be solely responsible for overseeing the performance of the market makers and their compliance with the market making agreement and the right to receive the related incentives. For greater clarification, performance of specific market making obligations and compliance with the terms and conditions of the market making agreement shall not be subject to the disciplinary jurisdiction of the Regulatory Division.

It is therefore the Bourse's conclusion that extending market maker eligibility to client firms will provide significant benefits to market quality, without adding any significant risks to market integrity as these clients are already bound by the rules of the Bourse as if they were approved participants and will agree to the Regulatory Division having the power and jurisdiction to enforce those rules against them as a condition to their appointment as market maker.

Application and Selection Process

The Bourse proposes to address generally the application and selection process of market makers in the rules and refer to each program's specifics for greater details. Potential market makers should know how their application will be evaluated. All market participants will also benefit from knowing which elements are evaluated by the Bourse when selecting a market maker. Given however that different market making program may have different application and selection processes, it is not practical to define them in advance within the rules, except for those that will apply consistently to any market making program. In line with practices at other exchanges (see comparative analysis below), the Bourse therefore proposes to provide for general conditions that will be particularized for each market making program. The application and selection process for each program will be specified and will be made public by the Bourse, in a circular or otherwise.

As a result, eligible approved participants and their clients will be informed of how to apply each time the Bourse proposes to institute a new market making program. This process will allow those interested to highlight their abilities and commitment towards the Bourse's market making requirements and obligations. These applications will be reviewed by the Bourse using the factors listed in the rules and all things considered, the best applications will be chosen.

Market Maker Agreement

The Bourse proposes to remove all market making obligations (quoting requirements, size, etc.) from the rules and incorporate them in contractual agreements signed by the market makers and to keep in the rules only general principles applicable to all market making assignments. For example, the general requirement to quote two-sided markets in the applicable products, at predetermined average bid/ask spreads and minimum quote sizes obligations would remain in the rules as the general obligation of market makers. However, each market making program will be specifically designed for the products and market conditions and will detail what the specific market making obligations are and the remedies for failing to comply with such obligations. A one-size-fits-all approach to market making obligations is not appropriate because it does not allow the Bourse to tailor the market making requirements to suit the product and serve the market needs. With specific obligations defined in a contractual agreement, and specific contractual remedies attached to those obligations, the Bourse will be able to better define market making obligations adapted to the product itself and the market's level of maturity and take relevant contractual remedies with regards to underperforming market makers.

These reform measures are aimed at clarifying, standardizing and formalizing the rights and obligations of market makers through the establishment of written Market Maker Agreements for all market making assignments. Thereby, the Bourse will be able to hold market makers to clear obligations, specific to each product and to market conditions.

The ultimate rationale of an improved market making regime is to improve the quality of posted markets. This requires diversifying and increasing the number of market makers and ensuring that the benefits of market making, the incentives for maintaining market making obligations, and the penalties for failing to perform are all adapted to the realities of the market. This also requires preserving the appropriate balance between a number of competing forces such as market maker sustainability, market quality, and institutional flows. The Bourse's market, and more broadly the

Canadian options and futures landscape, are very unique to our environment and cannot be easily compared to other markets. The Bourse's requirements in terms of market maker performance must be adapted to the realities of the Canadian options and futures market. They must be designed to attract and retain market makers, to offer improved market quality for market participants, and to accommodate the requirements of its specific market model.

The Bourse therefore strongly advocates a market making regime that is carefully based on defined rights, obligations, incentives and penalties as agreed between the Bourse and the market makers in binding agreements, rather than general terms in the rules. These obligations will be carefully monitored by the Bourse in order to ensure that performance is consistent with contractual commitments. Tailoring market maker sizes, spreads and time commitments to the realities of the market will help prevent market makers from being overly selective in their choice of assignments and thereby ignoring less liquid products to concentrate their activities on the most actively traded in order to manage their risks.

c. Comparative Analysis

These rule change proposals are in line with international practices. While there is no one single overarching approach to market making programs, the approach proposed by the Bourse is consistent with the ones chosen by many other global exchanges.

As shown in the comparative analysis table attached hereto, other exchanges have indeed chosen to allow non-members (i.e. clients) to act as market makers. Some other exchanges only allow members to act as market makers, but have membership requirements that are broader than the approved participant status requirements of the Bourse. Most notably, at these exchanges, proprietary trading firms could qualify for exchange membership. Of all the exchanges reviewed,² only CBOE, ISE and NYSE Arca, the US equity options exchanges, limit market maker eligibility to broker-dealers only. The US options market is very different from the Canadian options market, including the number of eligible and interested broker-dealers willing to act as market makers.

With regards to the application and selection process, practices vary from no indication at all in the rules (for example, Eurex) to a high level description of the application and selection process and eligibility requirements. In most if not all instances, the actual specific details are provided for on the exchange's website or in market making program circulars, application form, agreements, and/or other documents separate from the rules. The Bourse proposal is in line with the latter approach. The Bourse will be providing high level, generally applicable indications in its rules and more detailed, specific indications in the program's circular, on its website and/or through other publicly available sources.

Finally, most of the exchanges reviewed require the signature of a market maker agreement providing the specific terms and conditions, including the specific obligations of the market maker. Only CBOE, ISE and NYSE Arca, the US equity options exchanges, seem to provide all of the program terms and conditions in their rules without referring to a separate market maker agreement. Some of the other exchanges provide for high level terms and conditions or obligations directly in their rules, which are more fully detailed in a market maker agreement.

² CME, Eurex, ICE Futures Europe, CBOE, ISE, Nasdaq OMX, NYSE Arca Options, and ASX.

Finally, some exchanges do not provide any terms and conditions or obligations in their rules, which are rather detailed in the market maker agreement. Some of the exchanges publish their standard form of market maker agreement, which refer however to attachments specifying the obligations and incentives which are not published. The rules of at least one exchange reviewed provide that the content of the market maker agreement is confidential.

d. Proposed Amendments

First, the Bourse proposes to merge rules 6395 and 6820 into one rule governing market making both for options and futures. This new rule will set forth the general framework, terms and conditions applicable to all market making programs. Specific obligations and terms dealing with the administration of each program will be dealt with in formal Market Maker Agreements and other documents publicly available, like program circulars.

The Bourse also proposes to revisit a number of rules that used to apply to restricted trading permit holders, a category of participant that no longer exists, but that was authorized to act as a market maker. The Bourse is taking this opportunity to remove from its rules reference to restricted permit holder, which has become an obsolete concept. Other rules are modified to account for the fact that clients will be allowed to act as market makers.

III. AMENDMENT PROCESS

Given the central role of market makers for the Bourse's market model, the Bourse is seeking to expand the pool of potential qualified market makers so that market participants can benefit from the best possible market making activities. The expansion of the eligibility to clients of approved participants is necessary given the shift of the market making role traditionally played by approved participants towards highly specialized market making firms. The proposed modifications are also driven by the need to modernize the Bourse's practices around the governance of market making programs and align them more to global best practices.

IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

The proposed changes should have no impact on the technological systems of the Bourse, the Bourse's approved participants or any other market participants. Eligible clients are those already transmitting orders electronically to the Bourse through the systems of an approved participant in accordance with the rules of the Bourse.

V. OBJECTIVES OF THE PROPOSED ADMENDMENTS

The objective of the proposed amendments is to allow the Bourse's markets to benefit from an expanded pool of market makers, while ensuring the same level of market quality and integrity. By broadening the eligibility criteria, adapting the application and selection process, subjecting all market makers to the same regulatory standards, whether they are approved participants or clients, and entering into standard Market Maker Agreements with all market makers governing

their obligations and performance, the Bourse will increase its chances at finding the very best market makers, increasing liquidity of products for the benefit of all market participants and improving market quality.

VI. PUBLIC INTEREST

The proposed amendments will enhance the liquidity of the Bourse's market and this will benefit all retail and institutional clients, while ensuring market quality and integrity.

VII. EFFICIENCY

Efficient markets are characterized by depth and liquidity. Markets are perceived as efficient when participants trust that they will be able to easily get in and out of the market. Given the Bourse's objective to ensure market depth and liquidity, market makers are essential. The proposed amendments will enhance market efficiency by allowing the Bourse to seek the very best market making firms, without compromising on market quality, transparency and integrity.

VIII. PROCESS

The proposed amendments, including this analysis, must be approved by the Bourse's Rules and Policies Committee and submitted to the Autorité des marchés financiers, in accordance with the self-certification process, and to the Ontario Securities Commission for information purposes.

IX. ATTACHED DOCUMENTS

- Comparative analysis table.
- Proposed new rule 6395.
- Proposed ancillary rules amendments.

**MARKET MAKER PROGRAMS REFORM
COMPARATIVE ANALYSIS TABLE**

CLIENT AS MARKET MAKER		
Exchange	Rules	Comments
CME	<p>Rules 101 Qualifications and Responsibilities</p> <p>195 Market Maker and Incentive Programs</p> <p>195.D. Participant Compliance¹</p>	<p>- CME allows not only members, but any person, entity, or firm satisfying its requirements to become market makers.</p> <p>- All program participant must comply with exchange rules.</p>
	<p>101. Any adult of good moral character, reputation and business integrity, with adequate financial resources and credit to assume the responsibilities and privileges of membership, is eligible for membership in the Exchange. A determination as to whether an applicant for membership <u>or an applicant for an incentive program satisfies the Exchange requirements shall be made by the Membership Committee or by staff in the applicable department.</u> A person approved for membership and an individual or entity approved for an incentive program shall be subject to all Exchange Rules. Notwithstanding a transfer of membership, a person shall continue to be responsible for violations of Exchange Rules committed by him while he was a member and also agrees to have any disputes, which arose while he was a member and which relate to or arise out of any transaction upon the Exchange or membership in the Exchange, resolved in accordance with Exchange Rules.</p> <p>195. The Exchange may approve the implementation of market maker or incentive programs (each individually a “Program” or collectively, “Programs”) from time to time or modifications to existing Programs. The terms and conditions of each individual Program will be set forth in separate regulatory filings submitted to the Commodity Futures Trading Commission (“CFTC” or “Commission”). This Rule 195 contains terms and conditions that are generally applicable to the Exchange’s administration of the Programs. <u>Any person, entity, or firm that is accepted as a participant in any of the Exchange’s Programs shall be subject to Exchange Rules as one of the Program terms and conditions (each such person, entity, or firm a “Participant”).</u></p> <p>195. D. Participant Compliance If a Participant is accepted into a Program, the Participant <u>must comply with all applicable Program Terms, Exchange Rules, Exchange Fee Policy Bulletins, and Exchange policies</u> located on CME Group Inc.’s website at www.cmegroup.com, including all amendments thereto.</p>	

¹ CME Rulebook: <http://www.cmegroup.com/rulebook/CME/>

EUREX	Exchange rules Abr. 3.3 (01.06.2007) Admission as market maker ²	The Market maker admission requirements were deleted from the rules in 2007. The previous requirements were: Exchange Participants may apply for admission as Market Maker. A Market Maker admission is subject to the status of the admission as Exchange Participant.	<ul style="list-style-type: none"> - While Eurex rules no longer address market maker admission, Eurex still has market making programs³. - Only exchange members can act as market makers for Eurex products,⁴ but non-clearing membership requirements are different than the Bourse's approved participant requirements. Notably, proprietary trading firms may qualify for non-clearing membership.⁵
ICE Futures Europe	Participants in Market Maker programs and market makers B.6D.1 and B.6D.2 and Payment B.6D.14 ⁶	<p>B.6D.1 Participants in Market Maker Programs may be required to meet participation criteria, conditions and/or obligations set by the Exchange as applicable to participants in a particular Market Maker Program, as the same may be amended or added to from time to time, in order to be able to continue to participate in a particular Market Maker Program.</p> <p>B.6D.2 Any person applying to be a Market Maker may be required to satisfy specific criteria in relation to market making arrangements and Market Maker Commitments in relation to the trading of the Designated Products, as notified to the applicant by the Exchange.</p> <p>B.6D.14 Where a Market Maker Program relates to a service for which only Exchange fees are applicable, the payer of the fee discount or incentive fee under the Market Maker Program is the Exchange and the payee is the Market Maker, <u>regardless of whether such person is or is not an Exchange Member.</u></p>	<ul style="list-style-type: none"> - ICE allows members and non-members to act as market makers.

² See Exchange Rules Amendment History, [https://www.eurexchange.com/exchange-en/resources/rules-regulations/Exchange-rules/138364, Deletion Market Maker 3.3 \(cancelled\), 4.7.4 \(cancelled\), effective June 1st, 2007](https://www.eurexchange.com/exchange-en/resources/rules-regulations/Exchange-rules/138364_Deletion_Market_Maker_3.3_(cancelled)_4.7.4_(cancelled)_effective_June_1st_2007), https://www.eurexchange.com/blob/112938/39314fc88b5a08b484ef5f43d72daa17/data/er_history_01062007_en.pdf.pdf.

³ Futures : <http://www.eurexchange.com/exchange-en/trading/designated-market-making-and-options>: <http://www.eurexchange.com/exchange-en/trading/market-making>

⁴ "Additionally, all exchange members may apply for a Market Maker license. ", see: <http://www.eurexchange.com/exchange-en/trading/exchange-membership>

⁵ Non-Clearing membership requirements, see: <http://www.eurexchange.com/exchange-en/trading/exchange-membership/non-clearing-membership>

⁶ ICE Futures Europe Rules and Regulation, <https://www.theice.com/futures-europe/regulation>

CBOE	Rule 8.1 Market-Maker Defined ⁷	A Market-Maker ("Market-Maker" or "market maker") is an individual Trading Permit Holder or a TPH organization that is registered with the Exchange for the purpose of making transactions as dealer-specialist on the Exchange in accordance with the provisions of this Chapter. Registered Market-Makers are designated as specialists on the Exchange for all purposes under the Securities Exchange Act of 1934 and the Rules and Regulations thereunder.	- CBOE allows only individual Trading Permit Holder or a TPH organization to act as market makers - Only brokers or dealers registered pursuant to Section 15 of the Exchange Act may be a TPH organization and only an individual registered as a broker or dealer pursuant to Section 15 of the Exchange Act or associated with a TPH organization that is registered as a broker or dealer pursuant to Section 15 of the Exchange Act may be an individual Trading Permit Holder. ⁸
ISE	Rule 300. Market Maker Rights and Rule 800 Registration of Market Makers ⁹	<p>300. (a) Market Maker Rights may be owned by (i) registered broker-dealers approved as Members of the Exchange according to the requirements contained in this Chapter 3 or (ii) individuals and organizations that are not Members of the Exchange or that are otherwise Members, but do not seek to exercise trading privileges associated with such Rights (collectively "non-member owners").</p> <p>300. (b) Non-member owners shall not be permitted to exercise trading privileges on the Exchange with respect to such Rights, and are not considered Members of the Exchange with respect to such Rights for any purposes of these Rules. Non-member owners of Market Maker Rights shall lease the trading privileges associated with the Rights (i.e., the "Membership") to registered broker-dealers approved by the Exchange as Members.</p> <p>800. (a) A market maker is a Member with Designated Trading Representatives registered pursuant to Rule 801. Market makers are registered with the Exchange for the purpose of making transactions as dealer-specialist in accordance with the provisions of this Chapter. Registered market makers are designated as specialists on the Exchange for all purposes under the Exchange Act and the rules and regulations thereunder.</p>	- ISE allows a non-member to own Market Maker Rights, but not to exercise such Market Maker Rights, which shall be leased to and exercised by registered broker-dealers approved by ISE as Members.

⁷ CBOE Rules, <http://wallstreet.cch.com/CBOETools/PlatformViewer.asp?selectednode=chp%5F1%5F1%5F8%5F1%5F8&manual=-%2FCBOE%2FRules%2Fcboc%2DRules%2F>

⁸ See Chapter III, Trading Permit Holders, Rules 3.2 and 3.3, *ibid*.

⁹ International Securities Exchange Rules, updated as of March 24, 2016, <https://www.ise.com/assets/documents/optionsexchange/legal/rules/rules.pdf>

<p>NASDAQ OMX Stockholm AB (Nasdaq Derivatives Markets)</p>	<p>Rule 2.7.1 Market makers rules¹⁰</p>	<p>2.7.1 An Exchange Member which has entered into a Market Maker Agreement with the Exchange may become a Market Maker.</p>	<p>- Nasdaq OMX allows only Exchange Member to act as market makers, but requirements to become Exchange Member are different than the Bourse's approved participant requirements. Notably, proprietary trading firms may qualify as Exchange Member.¹¹</p>
<p>NYSE ARCA OPTIONS</p>	<p>Rule 1.1-1 Definitions, 6.1A Definitions and References – OX and 6.32 Market Maker Defined¹²</p>	<p>6.1A (8) Market Maker. The term "Market Maker" shall refer to an OTP Holder or OTP Firm that acts as a Market Maker pursuant to Rule 6.32.</p> <p>6.32 (a) A Market Maker is an individual who is registered with the Exchange for the purpose of making transactions as a dealer-specialist on the Floor of the Exchange or for the purpose of submitting quotes electronically and making transactions as a dealer-specialist through the NYSE Arca OX electronic trading system. Registered Market Makers are designated as specialists on the Exchange for all purposes under the Securities Exchange Act of 1934 and the Rules and Regulations thereunder. [...]</p>	<p>- NYSE allows only OTP Holders or OTP Firms to act as market makers</p> <p>- Only a registered broker or dealer pursuant to Section 15 of the Securities Exchange Act of 1934 may be an OTP Holder (or an individual associated to a registered broker or dealer) or OTP Firm.¹³</p>
<p>ASX</p>	<p>Rule [7100], Rule [3400] and Procedure 3400¹⁴</p>	<p>7100 [...] "Market Maker" means a Trading Participant registered by ASX under Rule [3440] which must make a market in assigned Classes.</p> <p>3440 ASX may register a Trading Participant as a Market Maker for one or more Derivatives Market Contracts in accordance with the procedure set out in the Procedures. Registration may be subject to any conditions which ASX considers appropriate (at any time).</p> <p>Procedure 3440</p> <p>The Procedure for registration as a Market Maker is as follows,</p> <p>To be eligible for registration as a Market Maker in respect of a Derivatives Market Contract, a person must be a Trading Participant with Trading Permission in respect of that Derivatives Market Contract. This criteria must continue to be satisfied at all times.</p>	<p>- ASX allows only Trading Participants to act as market makers, but requirements to become Trading Participants are different than the Bourse's approved participant requirements. Notably, proprietary trading firms may qualify as Trading Participants.¹⁵</p>

¹⁰ Rules and Regulations of Nasdaq Derivatives Markets governing Nasdaq Stockholm's derivative exchange, <http://business.nasdaq.com/list/Rules-and-Regulations/European-rules/common/derivatives-rules/>

¹¹ See rule 1.2.1, *ibid*.

¹² Rules of the NYSE Arca, Inc., http://nysearcarules.nyse.com/PCXtools/PlatformViewer.asp?SelectedNode=chp_1_1&manual=/PCX/PCXRules/pcx-rules/

¹³ See definition of OTP Holder and OTP Firm under Rule 1.1 Definitions, *ibid*.

¹⁴ ASX Operating Rules and Operating Rules Procedures, <http://www.asx.com.au/regulation/rules/asx-operating-rules.htm>

¹⁵ See ASX Operating Rules [1110], [1120], [1121], [1130] and [1140] and corresponding procedures, *ibid*.

APPLICATION AND SELECTION PROCESS

Exchange	Rules	Comments
CME	<p>Rule 195 Market maker and incentive programs</p> <p>B. Program terms and conditions¹⁶</p>	<p>- CME rules leave discretion to CME to determine the eligibility and select market makers at its discretion.</p>

1. Authority.
The Exchange shall have the sole authority to determine the qualifications, eligibility, product scope, start and end date, requirements, restrictions, obligations, and incentives of each Program (“Program Terms”) and whether an applicant or current Participant meets or has met the Program Terms. The Exchange reserves the right in its sole discretion to apply and interpret Program Terms and modify Program Terms. The Exchange has sole discretion to determine whether a Participant is admitted into or continues participation in any Program.

2. Registration, Documentation, Accounts and Information.
The Exchange may require the Participant to provide and/or execute documentation, including but not limited to applications, bid sheets and/or agreements (collectively, “Documents”) containing the Program Terms or other participant information prior to admission or continued participation in a Program. Where Documents are required, they must be submitted in accordance with any specified requirements set forth by the Exchange.

All information supplied by the Participant concerning the Participant, its principals, and all other information set forth in its Documents must be true, correct and complete. Submission of incomplete, incorrect, or false information may subject the Participant to Exchange disciplinary action. The Participant agrees to notify the Exchange in writing of any material changes with respect to the information that take place after the Participant has submitted its Documents and, if accepted into the Program, for the duration of the Participant’s participation in the Program.

The Participant must provide the Exchange with any required information including, without restriction, any account information, and register such accounts with the Exchange in order to be eligible to participate in the Program. Participant accounts must be registered with the Exchange for each Program into which a Participant is admitted. Any Participant that has not provided account information on a timely basis may not be eligible to receive incentives in the Exchange’s sole discretion.

¹⁶ Supra note 1.

EUREX	Rule 3.3- Admission as market maker ¹⁷	<p>The Participant shall promptly notify the Exchange in writing if the Participant: (i) merges with or acquires, in whole or in part, any separate trading entity, or (ii) is acquired, in whole or in part, by any separate entity.</p> <p>The Market maker selection process has been deleted from the rules in 2007. The previous article stated:</p> <p>3.3(1) Exchange Participants may apply for admission as Market Maker. A Market Maker admission is subject to the status of the admission as Exchange Participant. The Boards of Management of the Eurex Exchanges are responsible for granting of a Market Maker admission. [...]</p>	<p>- The application and selection process for market making assignments on Eurex are no longer provided for under the rules. They are rather set forth in the Market Making program circulars.¹⁸</p>
ICE Futures Europe	B.6D Market Maker Programs and A.1 Definitions ¹⁹	<p>B.6D.1 Participants in Market Maker Programs may be required to meet participation criteria, conditions and/or obligations set by the Exchange as applicable to participants in a particular Market Maker Program, as the same may be amended or added to from time to time, in order to be able to continue to participate in a particular Market Maker Program.</p> <p>B.6D.2 Any person applying to be a Market Maker may be required to satisfy specific criteria in relation to market making arrangements and Market Maker Commitments in relation to the trading of the Designated Products, as notified to the applicant by the Exchange.</p> <p>A.1 "Market Maker Program" means a market maker program (including liquidity provision schemes, rebates, fee discounts and similar incentive scheme arrangements designed to benefit the market) in relation to Designated Products, <u>as published by the Exchange, from time to time, in a circular or otherwise;</u></p>	<p>- ICE's rules do not provide for the eligibility criteria or application process. These details are provided for in circulars specific to each Market Making Program.</p>
CBOE	Rule 8.2 (a) Registration of market-makers ²⁰	<p>An applicant for registration as a Market-Maker shall file an application in writing with the TPH Department on such form or forms as the Exchange may prescribe. Applications shall be reviewed by the Exchange, which shall consider an applicant's ability as demonstrated by passing a Trading Permit Holder's examination prescribed by the Exchange, and such other factors as the Exchange deems appropriate. After reviewing the application, the Exchange shall either approve or disapprove the applicant's registration as a Market-Maker.</p>	<p>- CBOE's rules do not provide for the eligibility criteria or application process.</p>

¹⁷ Supra note 2.

¹⁸ See for example the Three-Month EURIBOR Future contract program currently effective: <http://www.eurexexchange.com/blob/2317174/3e2dfca615823b9429a51de321e4e446/data/er15232e.pdf>

¹⁹ Supra note 9.

²⁰ Supra note 7.

<p>ISE</p>	<p>Rule 800 Registration of Market Makers and Rule 802 Appointment of Market Makers²¹</p>	<p>800. (b) To register as a Competitive or Primary Market Maker, a Member shall file an application in writing on such forms as the Exchange may prescribe. Applications shall be reviewed by the Exchange, which shall consider an applicant's market making ability and such other factors as the Exchange deems appropriate. After reviewing the application, the Exchange shall either approve or disapprove the applicant's registration as a Competitive or Primary Market Maker.</p> <p>802. (a) In the manner prescribed by the Exchange, a market maker may seek appointment to one or more options classes traded on the Exchange. The Exchange or a committee designated by the Board shall appoint classes of options contracts traded on the Exchange to market makers taking into consideration: (i) the financial resources available to the market maker, (ii) the market maker's experience and expertise in market making or options trading, and (iii) the maintenance and enhancement of competition among market makers in each class of options contracts to which they are appointed. The Exchange or designated committee shall make appointments in the best interest of the Exchange to provide competitive markets. No appointment of a market maker shall be without the market maker's consent to such appointment, provided that refusal to accept an appointment may be deemed sufficient cause for termination or suspension of a market maker's registration.</p> <p>N/A</p>	<p>- ISE's rules provide for some eligibility criteria in their rules but also ask for specific information in their membership application form.²²</p>
<p>NASDAQ OMX Stockholm AB (Nasdaq Derivatives Markets)</p>	<p>2.7 Market Maker Rules²³</p>	<p>N/A</p>	<p>- There are no eligibility criteria disclosed in the rules or in the agreement.²⁴</p>

²¹ Supra note 9.

²² International Securities Exchange Membership Application Form, https://www.ise.com/assets/files/membership_application.pdf

²³ Supra note 10.

²⁴ NASDAQ OMX Stockholm AB Market Maker Agreement, <http://business.nasdaq.com/Docs/app-8A-Market-Maker-Agreement.pdf>

<p>NYSE ARCA OPTIONS</p>	<p>Rule 6.33 Registration of Market Makers And 6.82 Lead Market Makers</p>	<p>6.33 (a) An applicant for registration as a Market Maker shall file an application in writing with the Exchange on such form or forms as the Exchange may prescribe. Applications shall be reviewed by the Exchange, which shall consider an applicant's ability, as demonstrated by his passing a Market Maker examination prescribed by the Exchange, financial resources and such other factors as the Exchange deems appropriate. Applicants reapplying to the Exchange who have previously successfully completed such examination and have been absent from registration as a Market Maker or an MMAT with the Exchange for six months or more will be required to complete an orientation program prescribed by the Exchange. After reviewing the application, the Exchange shall either approve or disapprove the applicant's registration as a Market Maker. The registration of any person as a Market Maker may be suspended or terminated by the Exchange upon a determination of any substantial or continued failure by such Market Maker to engage in dealings in accordance with Rules 6.37, 6.37A or 6.37B.</p> <p>6.82 (a) General Provisions: (1) Lead Market Maker Defined. A Lead Market Maker ("LMM") is an individual or entity that has been deemed qualified by the Exchange for the purpose of making transactions on the Exchange in accordance with the provisions of Rule 6.82. Each LMM or nominee thereof must be registered with the Exchange as a Market Maker. Any OTP Holder or OTP Firm registered as a Market Maker with the Exchange is eligible to be qualified as an LMM.</p>	<p>- NYSE's rules provide for some eligibility criteria in their rules but also refer to forms that may or may not contain further criteria.</p>
<p>ASX</p>	<p>Rule [3400] and Procedure 3400²⁵</p>	<p>3440 ASX may register a Trading Participant as a Market Maker for one or more Derivatives Market Contracts in accordance with the procedure set out in the Procedures. Registration may be subject to any conditions which ASX considers appropriate (at any time).</p> <p>Procedure 3440 The Procedure for registration as a Market Maker is as follows, To be eligible for registration as a Market Maker in respect of a Derivatives Market Contract, a person must be a Trading Participant with Trading Permission in respect of that Derivatives Market Contract. This criteria must continue to be satisfied at all times.</p>	<p>- ASX's rules leave discretion to ASX to determine the eligibility and select market makers at its discretion.</p>

²⁵ Supra note 14.

MARKET MAKER AGREEMENT

Exchange	Rule 195 Market maker and incentive programs B. Program Terms and Conditions 2. Registration, Documentation, Accounts and Information ²⁶	Rules	Comments
CME	Rule 195 Market maker and incentive programs B. Program Terms and Conditions 2. Registration, Documentation, Accounts and Information ²⁶	<p>The Exchange may require the Participant to provide and/or execute documentation, including but not limited to applications, bid sheets and/or agreements (collectively, "Documents") containing the Program Terms or other participant information prior to admission or continued participation in a Program. Where Documents are required, they must be submitted in accordance with any specified requirements set forth by the Exchange.</p> <p>All information supplied by the Participant concerning the Participant, its principals, and all other information set forth in its Documents must be true, correct and complete. Submission of incomplete, incorrect, or false information may subject the Participant to Exchange disciplinary action. The Participant agrees to notify the Exchange in writing of any material changes with respect to the information that take place after the Participant has submitted its Documents and, if accepted into the Program, for the duration of the Participant's participation in the Program.</p> <p>The Participant must provide the Exchange with any required information including, without restriction, any account information, and register such accounts with the Exchange in order to be eligible to participate in the Program. Participant accounts must be registered with the Exchange for each Program into which a Participant is admitted. Any Participant that has not provided account information on a timely basis may not be eligible to receive incentives in the Exchange's sole discretion.</p> <p>The Participant shall promptly notify the Exchange in writing if the Participant: (i) merges with or acquires, in whole or in part, any separate trading entity, or (ii) is acquired, in whole or in part, by any separate entity.</p>	<p>- CME rules refer to separate documents containing the program terms to be executed by the market maker.</p>
EUREX	N/A	N/A	<p>- Even though not provided for in its rules, Eurex does require the signature of market making agreements providing for the specific terms and conditions to be complied with by the Market Maker.²⁷</p>

²⁶ Supra note 1.

²⁷ See for example the Three-Month EURIBOR Future contract program currently effective, <http://www.eurexchange.com/blob/2317174/3e2dfca615823b9429a51de321e4e446/data/er15232e.pdf>

ICE Futures Europe	B.6D.9	B.6D.9 The Exchange may publish details of any Market Maker Program and name its participants from time to time. The Market Maker shall not disclose the terms of any Market Maker agreement, provided that the Market Maker may disclose details of the terms of any Market Maker agreement to a regulatory authority or in accordance with applicable law or Rule B.6D.10. In the case of the Exchange, such confidential information shall be treated in accordance with Rule A.4.	- ICE rules refer to a market maker agreement.
CBOE	Chapter VIII, Section A: Market Makers ²⁸	See the rules for detailed obligations.	- All Market Maker obligations seem to be found in the rules and the rules do not refer to a separate market making agreement.
ISE	Chapter 8 Market Makers Rule 803 Obligations of Market Makers ²⁹	See the rules for detailed obligations.	- All Market Maker obligations seem to be found in the rules and the rules do not refer to a separate market making agreement.
NASDAQ OMX Stockholm AB (Nasdaq Derivatives Markets)	Rule 2.7.1 Market makers rules	2.7.1 An Exchange Member which has entered into a Market Maker Agreement with the Exchange may become a Market Maker. [...]	- General obligations are stated in the rules, but the rules refer to more specific obligations set forth in the Market Maker Agreement. - See rules 2.7.2 to 2.7.6 for general obligations. - Standard form market maker agreement is available but refers to further appendices in the form of specified Market Maker commitments that are not available. ³⁰
NYSE ARCA OPTIONS	Rules 6.37, 6.37A and 6.37B	See the rules for detailed obligations.	- All Market Maker obligations seem to be found in the rules and the rules do not refer to a separate market making agreement.
ASX	N/A	N/A	- ASX rules do not give any details with regards to market makers obligations, nor refer to market maker agreements. - However, on their website, ASX provides some details with regards to market maker schemes and obligations and mentions "This information is a summary of select terms in the market making incentive agreements between ASX and relevant market makers, and is not intended to be a definitive or comprehensive summary of those agreements." ³¹

²⁸ Supra note 7.

²⁹ Supra note 9.

³⁰ Supra note 24.

³¹ Market Maker Arrangements, ASX Market Making Incentive Schemes <http://www.asx.com.au/products/market-maker-arrangements.htm>

6395 Market makers - Options and futures
(24.09.01, 29.10.01, 00.00.00)

- 1) General – In order to provide price discovery, transparency and liquidity in the market and facilitate the handling of orders, any listed product can be assigned by the Bourse to one or several market makers who have agreed to undertake the market maker’s responsibilities of quoting two-sided markets in the applicable products, at predetermined average bid/ask spreads and minimum quote sizes and have signed a market maker agreement.
- 2) Market Maker Programs – The Bourse may implement market maker programs (in this rule each individually a “program” or collectively, “programs”) or modify existing programs from time to time. This rule 6395 set forth terms and conditions applicable to all programs generally. Terms and conditions applicable to specific programs will be published by the Bourse, in a circular or otherwise.
- 3) Eligibility Criteria – Only an approved participant or a client of an approved participant who has been authorized by the approved participant to electronically transmit orders to the Bourse through its systems in compliance with the regulations of the Bourse will be eligible for market making assignments.
- 4) Application Process – Eligible market participants may submit their candidacy for a market making assignment under a program in accordance with the application procedure determined by the Bourse.
- 5) Selection Process – The Bourse shall select market makers taking into consideration the ability to meet the quoting requirements of the relevant product(s) on an electronic trading platform, adequacy of capital, experience with trading a similar derivative instrument, willingness to promote the Bourse as a market place, operational capacity, trading infrastructure and technology to support electronic trading, support personnel, history of compliance with the regulations of the Bourse and general reputation, past performance in relation to fulfilment of market maker obligations in other programs and the contribution that the applicant’s prices and trading activity have made to market activity in other products, where relevant, the level of access to the underlying cash market, and any other factor which the Bourse deems relevant.
- 6) Market Making Agreement – A market making assignment under a program will be conditional upon the signature of a Market Making Agreement between the selected market maker and the Bourse. The market making assignment, and the right to receive the related incentives, may not commence before the Market Making Agreement is completed, signed and received by the Bourse. The Bourse shall be solely responsible for overseeing the performance of the market makers and their compliance with the Market Making Agreement. For greater certainty, specific market making obligations and the terms of the Market Making Agreement are contractual obligations between the Bourse and the market maker and are not considered regulations of the Bourse. As such, they are subject to contractual remedies only, and a breach thereof shall not in and of itself constitute a violation of the regulations of the Bourse, except to the extent the contractual breach may also independently constitute a violation of a specific regulation of the Bourse.

7) Conditions specific to clients of an approved participant

- a. By entering into a market making agreement, a client of an approved participant agrees, with respect to its trading activities and conduct as a market maker (i) to be subject to the jurisdiction of the Regulatory Division of the Bourse, as well as the Disciplinary Committee and the Special Committee, during the term of the market making assignment and thereafter in accordance with paragraph b) of rule 4101 to the same extent and as if it was itself an approved participant and (ii) to comply with all the regulations of the Bourse specified in the market maker agreement.
- b. The Bourse shall not grant any market making assignment to a client who has been authorized by an approved participant to electronically transmit orders to the Bourse through its systems in compliance with the rules of the Bourse without first obtaining the acknowledgement of the approved participant providing such electronic access. Neither the approved participant nor the client shall be relieved of any responsibility or obligation with regards to the electronic access of the client under the relevant rules of the Bourse, which shall continue to apply. However, for greater certainty, the approved participant shall have no responsibility and shall not be liable with regard to market making obligations set forth in the market making agreement.
- c. The client of an approved participant that has been granted a market making assignment by the Bourse has the right to communicate directly with the Bourse in the same manner as approved participants may do so, but only for purposes of its trading as a market maker and to the extent required to carry out its obligations in such capacity.

8) Authority - The Bourse shall have the sole authority to administer the programs, limit the number of market makers under a given program, assess the performance of the market makers and determine whether an applicant or current market maker meets or has met the program terms and conditions or complies with the market making agreement. The Bourse reserves the right in its sole discretion to apply and interpret the programs and to determine whether an applicant is admitted into or continues participation in any program. All decisions and determinations of the Bourse shall be final.

9) Arbitration – By entering into a market making agreement, each market maker agrees to the arbitration of any monetary claim made against it by any other approved participant or market maker arising out of its activities on the Bourse relative to its market making assignment, irrespective of whether the market making assignment has expired at the time the claim is asserted.

In order to enhance the liquidity of the market and facilitate the handling of orders, a listed option class can be assigned to one or several approved participants who have agreed to undertake the market maker's responsibilities:

A market maker can be assigned one or more classes of options to which he must provide liquidity. In addition to the foregoing, each market maker shall comply with the following obligations required by his role and responsibilities:

~~A) Oversight and selection of market makers shall be the responsibility of the Bourse. Factors to be considered for the selection of market makers shall include the following: adequacy of capital, experience with trading of a similar derivative instrument, willingness to promote the Bourse as a market place, operational capacity, support personnel, history of compliance with the Rules of the Bourse and any other factor which the Bourse deems relevant.~~

~~B) By written application in the form prescribed by the Bourse, an approved participant may request a market maker assignment in one or more listed options classes. An application for market maker assignment by an approved participant must include the name of its designated representative. The Bourse may also request any one or more conditions on the nomination, in respect of any representations made in the application process, including but not limited to, capital, operations or personnel.~~

~~C) The market maker is obligated to promptly inform the Bourse of any material change in its financial or operational condition or in its personnel. A market maker appointment can not be transferred without the prior approval of the Bourse. The market maker must serve until he is relieved from his obligations by the Bourse.~~

~~D) The Bourse may, at its discretion, relieve a market maker from his appointment:~~

- ~~i) if, upon review, the Bourse determines that a market maker has not performed satisfactorily the conditions of his appointment;~~
- ~~ii) if a market maker incurs a material financial, operational or personnel change which could negatively impact his ability to satisfactorily perform his duties;~~
- ~~iii) if for any reason the market maker should no longer be eligible for appointment, should resign his appointment or fail to perform his duties.~~

~~If a market maker has been relieved of his appointment or the appointment otherwise becomes vacant, the Bourse has discretion to appoint an interim market maker pending the conclusion of a new market maker selection process. The appointment as interim market maker is not a prejudgement of the outcome of the new market maker selection process.~~

~~E) A market maker shall continuously maintain for his account on every series of his assigned options classes a two sided market, consisting of a current bid and ask, with their associated size commitments.~~

~~— He must effect trades which have a high degree of correlation with the overall pattern of trading for each of his assigned options classes.~~

~~F) With respect to each class of options for which he holds an assignment, a market maker has a continuous obligation to engage, to a reasonable degree under prevailing circumstances, in dealings for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of, and demand for, a particular options series, or a temporary distortion of the price relationships between options contracts of the same class.~~

~~Without limiting the foregoing, a market maker is expected to perform the following activities in the course of maintaining a fair and orderly market:~~

- ~~i) to compete with other market makers to improve markets in series of options classes in which the market maker has an assignment;~~
- ~~ii) to make markets which, upon stable market conditions, will be honoured to a reasonable number of contracts in series of options classes in which the market maker has an assignment;~~
- ~~iii) to price options fairly by bidding and/or offering so as to create differences of no more than his spread commitments in series of options classes in which the market maker has an assignment.~~

6820 Market Makers - Futures

(16.05.11, abr. 00.00.00)

- a) ~~In order to enhance the liquidity of the market and facilitate the handling of orders, the Bourse can execute a market making agreement with an Approved Participant or Foreign Approved Participant for one or many futures contracts listed on the Bourse. The market maker shall be required to maintain a two-sided market in the futures contracts designated by the Bourse.~~

- b) ~~Oversight and selection of market makers shall be the responsibility of the Bourse. Factors to be considered for the selection of market makers shall include the following: adequacy of capital, experience with trading of a similar derivative instrument, willingness to promote the Bourse as a market place, operational capacity, support personnel, history of compliance with the Rules of the Bourse and any other factor which the Bourse deems relevant.~~

- e) ~~Each market maker shall comply with the following obligations, including:~~
 - i) ~~the market maker is obligated to promptly inform the Bourse of any material change in its financial or operational condition or in its personnel.~~

 - ii) ~~A market making agreement can not be transferred without the prior approval of the Bourse.~~

 - iii) ~~The market maker must fulfill his obligations towards the Bourse until the term of the market making agreement or until its termination thereof by the Bourse.~~

- d) ~~The Bourse may, at its discretion, terminate a market making agreement:~~
 - i) ~~if, upon review, the Bourse determines that the performance of a market maker does not comply with the terms of the market making agreement;~~

 - ii) ~~if a market maker incurs a material financial, operational or personnel change which could negatively impact his ability to satisfactorily perform his duties;~~

 - iii) ~~if for any reason the market maker no longer complies with the terms of the market making agreement or the rules and procedures of the Bourse, if he advises the Bourse that he intends to cease to comply with the terms of the market making agreement or fails to fulfill his obligations.~~

- ~~Generally, no adjustments will be made for declared dividends, if any, on the underlying stocks.~~

6395 Market Makers – Options and futures

(24.09.01, 29.10.01., 00.00.00)

- 1) General – In order to provide price discovery, transparency and liquidity in the market and facilitate the handling of orders, any listed product can be assigned by the Bourse to one or several market makers who have agreed to undertake the market maker’s responsibilities of quoting two-sided markets in the applicable products, at predetermined average bid/ask spreads and minimum quote sizes and have signed a market maker agreement.
- 2) Market Maker Programs – The Bourse may implement market maker programs (in this rule each individually a “program” or collectively, “programs”) or modify existing programs from time to time. This rule 6395 set forth terms and conditions applicable to all programs generally. Terms and conditions applicable to specific programs will be published by the Bourse, in a circular or otherwise.
- 3) Eligibility Criteria – Only an approved participant or a client of an approved participant who has been authorized by the approved participant to electronically transmit orders to the Bourse through its systems in compliance with the regulations of the Bourse will be eligible for market making assignments.
- 4) Application Process – Eligible market participants may submit their candidacy for a market making assignment under a program in accordance with the application procedure determined by the Bourse.
- 5) Selection Process – The Bourse shall select market makers taking into consideration the ability to meet the quoting requirements of the relevant product(s) on an electronic trading platform, adequacy of capital, experience with trading a similar derivative instrument, willingness to promote the Bourse as a market place, operational capacity, trading infrastructure and technology to support electronic trading, support personnel, history of compliance with the regulations of the Bourse and general reputation, past performance in relation to fulfilment of market maker obligations in other programs and the contribution that the applicant’s prices and trading activity have made to market activity in other products, where relevant, the level of access to the underlying cash market, and any other factor which the Bourse deems relevant.
- 6) Market Making Agreement – A market making assignment under a program will be conditional upon the signature of a Market Making Agreement between the selected market maker and the Bourse. The market making assignment, and the right to receive the related incentives, may not commence before the Market Making Agreement is completed, signed and received by the Bourse. The Bourse shall be solely responsible for overseeing the performance of the market makers and their compliance with the Market Making Agreement. For greater certainty, specific market making obligations and the terms of the Market Making Agreement are contractual obligations between the Bourse and the market maker and are not considered regulations of the Bourse. As such, they are subject to contractual remedies only, and a breach thereof shall not in and of itself constitute a violation of the regulations of the Bourse, except to the extent the contractual breach may also independently constitute a violation of a specific regulation of the Bourse.

- 7) Conditions specific to clients of an approved participant
- a. By entering into a market making agreement, a client of an approved participant agrees, with respect to its trading activities and conduct as a market maker (i) to be subject to the jurisdiction of the Regulatory Division of the Bourse, as well as the Disciplinary Committee and the Special Committee, during the term of the market making assignment and thereafter in accordance with paragraph b) of rule 4101 to the same extent and as if it was itself an approved participant and (ii) to comply with all the regulations of the Bourse specified in the market maker agreement.
 - b. The Bourse shall not grant any market making assignment to a client who has been authorized by an approved participant to electronically transmit orders to the Bourse through its systems in compliance with the rules of the Bourse without first obtaining the acknowledgement of the approved participant providing such electronic access. Neither the approved participant nor the client shall be relieved of any responsibility or obligation with regards to the electronic access of the client under the relevant rules of the Bourse, which shall continue to apply. However, for greater certainty, the approved participant shall have no responsibility and shall not be liable with regard to market making obligations set forth in the market making agreement.
 - c. The client of an approved participant that has been granted a market making assignment by the Bourse has the right to communicate directly with the Bourse in the same manner as approved participants may do so, but only for purposes of its trading as a market maker and to the extent required to carry out its obligations in such capacity.
- 8) Authority - The Bourse shall have the sole authority to administer the programs, limit the number of market makers under a given program, assess the performance of the market makers and determine whether an applicant or current market maker meets or has met the program terms and conditions or complies with the market making agreement. The Bourse reserves the right in its sole discretion to apply and interpret the programs and to determine whether an applicant is admitted into or continues participation in any program. All decisions and determinations of the Bourse shall be final.
- 9) Arbitration – By entering into a market making agreement, each market maker agrees to the arbitration of any monetary claim made against it by any other approved participant or market maker arising out of its activities on the Bourse relative to its market making assignment, irrespective of whether the market making assignment has expired at the time the claim is asserted.

1102 Definitions

(07.09.99, 31.01.01, 08.07.02, 02.09.03, 17.06.05, 30.07.13, 17.07.15, 00.00.00)

The following is an alphabetical index of each term defined in English in this article with the corresponding French term in brackets.

[...]

Market Maker (Mainteneur de marché)

Market -Maker Account (Compte de mainteneur de marché)

Market Maker Agreement (Convention de mainteneur de marché) ~~**Restricted Trading Permit (Permis restreint de négociation)**~~

Market Maker Assignment (Assignation à titre de mainteneur de marché) ~~**Restricted Trading Permit Holder (Détenteur de permis restreint de négociation)**~~

[...]

~~**Restricted Trading Permit Holder**~~ **Market Maker** refers to a physical person who is not an approved participant or a client of an approved participant who has been granted a market maker assignment and who is authorized and registered as such by the Bourse to trade as a market maker, an independent trader or a jitney in accordance with the Regulations provisions of Rule Three of the Bourse.

Market Maker Agreement means an agreement entered into by the Bourse and a market maker which sets out the terms and conditions of the market maker assignment.

Market -Maker Account means ~~an a firm~~ account of established by an approved participant ~~which that~~ is confined to ~~exchange~~ transactions executed initiated by ~~and positions carried by~~ the approved participant ~~on behalf of~~ acting as a market-maker.

~~**Restricted Trading Permit**~~ **Market Maker Assignment** means ~~a permit~~ an assignment granted by the Bourse to a market maker to trade carry out certain market making obligations with regards to specific listed products issued to a physical person who is not an approved participant and who is qualified pursuant to the Regulations of the Bourse.

[...]

2511 Liability of the Bourse

(11.04.05, 00.00.00)

- 1) Any claim against the Bourse by an approved participant, an approved person, ~~a restricted trading permit holder~~, or a partner, shareholder, director, officer, agent or employee of an approved participant shall be governed by the laws of Québec.
- 2) Except as expressly provided herein, the Bourse and its directors, officers, committee members and employees shall be exempt from all liability arising out of the acts or omissions of the Bourse, an affiliate of the Bourse, or the directors, officers, employees, agents, and independent contractors of the Bourse or of an affiliate of the Bourse.
- 3) The exemption from liability set out in paragraph 2 above shall not extend to, nor limit liability for damages caused through an intentional or gross fault as defined in Article 1474 of the Civil Code of Québec.
- 4) Notwithstanding paragraph 2 above, the Bourse undertakes to make payments in settlement of claims by approved participants for losses arising out of an error by an employee of the Bourse in regard to an order of the approved participant on the trading systems of the Bourse. Such payments shall be subject to the following conditions and limitations:
 - a) Any such payment may only be made as compensation for losses, except for loss of profit, sustained as an immediate, direct and foreseeable consequence of an error by an employee of the Bourse in regard to an order on the trading systems of the Bourse.
 - b) The Bourse's total liability in respect of all such claims by all approved participants of the Bourse in any calendar year shall be limited to \$240,000. All claims by approved participants shall be reviewed and evaluated by the Bourse on a yearly basis and shall share *pro rata* whenever the aggregate amount payable in respect of all such claims by all approved participants as determined by the Bourse exceeds the yearly limit.
 - c) Immediately upon becoming aware of an error for which it may make a claim, the approved participant must inform the Bourse of all the relevant details of which the approved participant is aware in order for the Bourse to trace the affected order in its systems (the "Advance Notice Requirement"). The Bourse will process a claim for payment only if (1) the approved participant has complied with the Advance Notice Requirement, (2) the approved participant has submitted a claim in writing to the Bourse within thirty days from the date the approved participant first knew of the loss, but in any event no later than thirty days from the end of the calendar year during which the approved participant's order relating to the loss occurred, and (3) the approved participant has provided to the Bourse, as soon as available but in any event no later than thirty days from the earlier of (a) the date the approved participant first knew of the loss and (b) the end of the calendar year during which the approved participant's order relating to the loss occurred, all documents and information reasonably required by the Bourse to enable it to evaluate the claim (the "Required Information"). The Bourse undertakes to review and evaluate such claims in a commercially reasonable manner and to advise the approved participant of its decision regarding payment of the claim within thirty days from the receipt of the Required Information. The Bourse undertakes to pay the amount which it determines is due in respect of each claim, subject to any pro rating required under paragraph 4) b) above, within sixty days from the end of the calendar year in which the loss occurred. Any disputed claim must be arbitrated in accordance with articles 5201 *et seq.* of Rule Five, which shall apply *mutatis mutandis*.

- d) Without limiting the generality of paragraph 4) a), no loss shall be eligible for payment by the Bourse under paragraph 4):
 - i) if it was the result of a failure or defect in the hardware or software used by the Bourse or an interruption in the supply of energy or communications services, except to the extent that the fault of an employee of the Bourse contributed to the loss;
 - ii) if it relates to the market surveillance or regulatory activities of the Bourse;
 - iii) to the extent that it was due to the failure of the approved participant or its client to take reasonable steps to mitigate the loss.
- e) No payment by the Bourse under this paragraph 4 shall be construed as an admission of liability by the Bourse.

3952 Requirements pertaining to the status of a restricted trading permit holder

(01.05.89, 25.07.91, 01.08.95, 15.03.05, 30.03.10, abr. 00.00.00)

~~A restricted trading permit holder must meet the following conditions:~~

- ~~i) being an individual of at least 18 years of age;~~
- ~~ii) complying with the applicable immigration rules, if not a Canadian citizen;~~
- ~~iii) demonstrating, in a way satisfactory to the Bourse, good character, reputation, credit and financial situation;~~
- ~~iv) in the opinion of the Bourse, being able to perform conscientiously the functions needed to promote market development for the Bourse products for which a restricted trading permit was issued and being able to assume the responsibilities and privileges of a restricted trading permit holder;~~
- ~~v) being properly registered with the Autorité des marchés financiers;~~
- ~~vi) having entered into an agreement with an approved participant for the clearing of trades, in the course of which this clearing approved participant guarantees without conditions all the trades of the restricted trading permit holder;~~
- ~~vii) either alone or considering the joint account agreement entered into with a partner in accordance with article 7008, having the net worth provided by article 7007, or any higher amount as may be required by the clearing approved participant with whom the applicant has entered into a clearing agreement;~~
- ~~viii) having passed the examinations required by the Bourse or having been exempted therefrom;~~
- ~~ix) having submitted an application to the Bourse in the prescribed form and having filed all required documents;~~
- ~~x) having provided all information required by the Bourse including, without limiting the generality of the foregoing, sources of financing, profit sharing and joint accounts;~~
- ~~xi) having signed a consent, in a prescribed form, authorizing the Bourse, to obtain from the applicant or any other person, all information regarding the applicant's trades on other exchanges or other markets while the trading permit is in force; and~~
- ~~xii) having paid the applicable fees.~~

3953 Rights and Obligations of Restricted Trading Permit Holders

(01.05.89, 15.03.05, abr. 00.00.00)

~~Holders of restricted trading permits have the following rights and obligations:~~

- ~~i) the right to have a direct access to the trading system of the Bourse, but only as principal to trade the Bourse products for which the permit has been issued;~~

~~ii) the right to communicate during business hours with any approved participant in the same manner as approved participants may do so, but only with respect to the Bourse listed products specified by his permit; and~~

~~iii) the obligation to, as long as he is a restricted trading permit holder, not hold other positions or have any other occupation in relation to the financial markets or the securities market.~~

~~—Restricted trading permits are not transferable.~~

3954 Additional Rules

(11.03.85, 01.05.89, 15.03.05, 30.03.10, abr. 00.00.00)

~~Each restricted trading permit holder is subjected to the jurisdiction of the Bourse during the term of the permit and thereafter, in accordance with paragraph b) of article 4101.~~

~~Each restricted trading permit holder is bound by all the obligations imposed upon approved participants or approved persons under the regulations of the Bourse. However, the Special Committee may exempt restricted trading permit holders from any such duty or obligation which is incompatible or in conflict with, or is unrelated to, the activities performed by them.~~

3955 Fees

(11.03.85, 25.07.91, 15.03.05, abr. 00.00.00)

~~—Restricted trading permit holders must pay the entrance fees and other fees as determined by the Special Committee.~~

~~—The Bourse may suspend the permit if such fees have not been paid.~~

3956 Surrender of Restricted Trading Permits

(11.03.85, 01.05.89, 25.07.91, 01.04.99, 15.03.05, abr. 00.00.00)

~~—A restricted trading permit holder may terminate the permit by surrendering it to the Bourse or by giving the Bourse a written notice. A restricted trading permit holder is deemed to have surrendered the permit when he or she has ceased activities for more than three months without the approval of the Bourse.~~

3957 Arbitration

(11.03.85, 15.03.05, abr. 00.00.00)

~~—Each restricted trading permit holder agrees by filing the application for a restricted trading permit, to the arbitration of any monetary claim made against him or her by any other restricted trading permit holder, or by any approved participant, arising out of his or her activities on the Bourse while a restricted~~

~~trading permit holder, irrespective of whether the restricted trading permit has expired at the time the claim is asserted.~~

3958 Revocation of Restricted Trading Permits
(11.03.85, 01.05.89, 15.03.05, 30.03.10, abr. 00.00.00)

~~—Without prejudice to the disciplinary powers of the Special Committee or the Disciplinary Committee pursuant to the regulations of the Bourse, the Special Committee may suspend or revoke the permit of any restricted trading permit holder under the following conditions:~~

- ~~a) Upon finding, after notice and opportunity for hearing, that the restricted trading permit holder:
 - ~~i) at the time of filing of the application, did not provide the Bourse with all relevant information or has provided information which was untrue, inaccurate or incomplete;~~
 - ~~ii) has ceased to meet the requirements provided in article 3952 of the Rules of the Bourse;~~
 - ~~iii) contravenes to or refuses to cooperate with the Bourse in relation to any of his or her undertakings;~~
 - ~~iv) has violated any regulations of the Bourse;~~
 - ~~v) has not performed conscientiously the activities authorized by his restricted trading permit;~~
 - ~~vi) has executed transactions in any Bourse listed product other than those specified by his restricted trading permit;~~
 - ~~vii) has ceased trading or has a level of activity on the Bourse which is unsatisfactory; or~~
 - ~~viii) has made statements or acted in such a way which could reasonably lead others to believe that he or she is an approved participant of the Bourse, an employee of an approved participant or an employee or representative of the Bourse;~~~~
- ~~b) Upon a final determination in an administrative or judicial proceeding that the restricted trading permit holder has violated the Securities Act, the Derivatives Act or any other similar act and that such a proceeding impairs the ability of the restricted trading permit holder, either temporarily or permanently, to perform any of the activities contemplated in the permit, such permit may be suspended or revoked after notice and opportunity for hearing;~~
- ~~c) Upon the insolvency or bankruptcy of the restricted trading permit holder, whether voluntary or involuntary and whether or not a full discharge of obligations is sought.~~

3959 Restricted Trading Permit - Option Category
(01.05.89, 25.07.91, 02.04.93, 15.03.05, 30.03.10, abr. 00.00.00)

~~—The Bourse establishes a restricted trading permits—options category, which entitles the holder to trade the option products, other than options on futures contracts, listed on the Bourse.~~

~~—The provisions of articles 3952 to 3958 apply to such permits.~~

3960 Restricted Trading Permit - Financial Derivatives Category

(01.05.89, 25.07.91, 04.05.95, 03.11.97, 15.03.05, 30.03.10, abr. 00.00.00)

~~The Bourse establishes a restricted trading permits—financial derivatives category, which entitles the holder to trade futures contracts and futures contracts options.~~

~~The provisions of articles 3952 to 3958 apply to such permits.~~

4001 Information

(16.10.89, 11.03.92, 15.03.05, 02.09.11, 00.00.00)

Approved participants, their employees ~~and~~, approved persons ~~and restricted trading permit holders~~ must comply with the obligation to provide information as set forth in this Section I.

Upon the request of the Regulatory Division or of one of its representatives, these persons must provide forthwith all information related to their business, trades, positions or conduct as well as to the identity, business, trades or positions of any of their customers and employees and customers of persons for whom they provide account maintenance services. To this end, these persons must submit and give to the Regulatory Division access to any records, registers, data, data bases, files, documents, papers and information for examination, and allow the Regulatory Division or its representative to obtain copy thereof on demand.

For the purposes of any investigation or examination, the Regulatory Division or its representative may obtain such information from any source whatsoever, including any of the customers of any approved participants.

The Regulatory Division may at any time make available to any other exchange or securities commission or similar authority any report or information of the sort described in this article. For that purpose, the Regulatory Division may, on behalf of the Bourse, enter into agreements with any person or entity, in Québec or outside of Québec, for the sharing of information.

The obligation to inform extends to officers, partners, directors, employees and auditors of any approved participant and also entails the obligation to appear before the Bourse at the time and place indicated by the Regulatory Division.

Compliance with the provisions of this Section I shall not create any liability towards any other approved participant, employee of an approved participant, approved person, ~~restricted trading permit holder~~ or client.

4002 Notice of Non-Compliance

(11.03.85, 11.03.92, 15.03.05, 02.09.11; 16.07.12, 00.00.00)

1. Immediate notice must be given in writing to the Regulatory Division by an approved participant ~~or~~, approved person ~~or restricted trading permit holder~~ in the event that such person, or any other approved participant, employee, ~~restricted trading permit holder~~ or approved person fails to be able to continue to meet its obligations or becomes insolvent or commits an act of bankruptcy within the meaning of the Bankruptcy and Insolvency Act.
2. Notice must be given to the Regulatory Division by an approved participant ~~or~~, approved person ~~or restricted trading permit holder~~, using the prescribed form, within ten (10) business days of a finding, in the event that such person, or any other approved participant, employee ~~or restricted trading permit holder~~, client authorized to use the order routing system of an approved participant pursuant to article 6366 B) or approved person fails to comply with the regulations of the Bourse.
3. Without limiting the above, approved participants must diligently conduct and complete all necessary audits and investigations, in compliance with their internal supervision policies and procedures, when

they suspect an employee, an approved person, ~~a restricted trading permit holder~~ or a client of having contravened the Rules of the Bourse pertaining to, notably:

- a) the obligation to trade in compliance with equitable principles;
 - b) the prohibition to use any manipulative or deceptive methods of trading;
 - c) the prohibition to enter orders or to execute trades in an irregular manner;
 - d) the prohibition of front running;
 - e) the obligation to execute clients' orders at the best possible price;
 - f) the obligation to ensure the priority of client's orders;
 - g) the obligation to execute on the Bourse's market all transactions on derivative instruments listed on the Bourse, subject to specific exceptions provided for in the Rules of the Bourse; and
 - h) any other obligation, prohibition or requirement that may be established by the Bourse from time to time.
4. Any verification or investigation made in accordance with this article, regardless of the conclusion, must be recorded in writing and adequately documented. Records so created must be kept for a period of at least seven (7) years as of their date of creation and must be made available to the Regulatory Division upon request.
5. If upon completion of the verifications and investigations provided for in paragraph 3, an approved participant concludes to a possible violation of any of the obligations, prohibitions or requirements mentioned in said paragraph, it must forward the required information to the Regulatory Division of the Bourse, using the prescribed form no later than the tenth (10th) business day following the date on which it reached such conclusion.
6. The obligations of an approved participant provided for in this article are in addition to the other obligations stipulated in the Rules, Policies and trading Procedures of the Bourse, notably with regards to supervision and, in any case, shall not prevent the Bourse from undertaking disciplinary measures against an approved participant or; an approved person ~~or a restricted trading permit holder~~.

~~b) such person, or any other approved participant, employee, restricted trading permit holder or approved person fails to be able to continue to meet its obligations or becomes insolvent or commits an act of bankruptcy within the meaning of the Bankruptcy and Insolvency Act.~~

4003 Special Inspection or Investigation

(11.03.85, 11.03.92, 15.03.05, 00.00.00)

Without in any way limiting the powers conferred upon the staff of the Bourse by article 4001, the Special Committee or the Vice-President of the Regulatory Division of the Bourse may in their absolute discretion, at any time, direct a special examination or investigation to be made in respect of the conduct, the business or affairs of an approved participant or; an approved person ~~or a restricted trading permit holder~~.

4005 Failure to Provide Information or to Appear

(11.03.85, 11.03.92, 15.03.05, 00.00.00)

Any approved participant or; approved person ~~or restricted trading permit holder~~ who refuses or neglects to provide information in the manner prescribed in this Section I or who fails to attend a hearing after having been given notice thereof, may be suspended without any notice, hearing or formality by the Special Committee until the required information has been provided or an attendance made as set out in the summary proceedings provided for in articles 4301 and following.

4006 Costs and Expenses

(11.03.85, 11.03.92, 15.03.05, 02.09.11, 00.00.00)

The costs and expenses paid or incurred by the Regulatory Division in connection with any examination or investigation instituted pursuant to the provisions of articles 4001 or 4003 and all proceedings relating thereto or steps taken as a result thereof shall be a debt owed to the Bourse by the approved participant or; approved person ~~or restricted trading permit holder~~ who must pay the amount thereof upon demand.

4101 Complaints

(11.03.85, 11.03.92, 15.03.05, 29.03.06, 00.00.00)

- a) The Bourse, an approved participant or; an approved person ~~or a restricted trading permit holder~~ may, in accordance with the procedures provided in articles 4151 and following, file a complaint against an approved participant or; an approved person ~~or a restricted trading permit holder~~, in respect of:
- i) a breach of the regulations of the Bourse;
 - ii) any act, conduct, practice or proceeding unbecoming an approved participant of the Bourse or; an approved person ~~or a restricted trading permit holder~~, inconsistent with just and equitable principles of trade, or detrimental to the reputation of the Bourse or to the interests or the welfare of the public or of the Bourse,

whether or not such act, conduct or proceeding is related to dealings or transactions on the Bourse.

- b) The Bourse may also file a complaint of the type described in paragraph a) above against a former approved participant or; approved person ~~or restricted trading permit holder~~, provided an originating notice is served on such person within thirty six (36) months from the date upon which the person ceased to be an approved participant or; an approved person ~~or a restricted trading permit holder~~.

This provision is in addition to the powers the Bourse may hold and choose to exercise pursuant to powers delegated by a securities commission.

- c) Without in any way limiting the generality of the foregoing, the following actions of an approved participant or; approved person ~~or restricted trading permit holder~~ shall be deemed an act, conduct, practice or proceeding covered by sub-paragraph a) ii) of the present article:

- i) misleading or attempting to mislead the Bourse on any material point;
 - ii) breaching any statute or regulation related to the trading of securities or derivative instruments;
 - iii) indiscriminate or improper solicitations of orders, either by telephone or otherwise;
 - iv) using high pressure or other sales tactics of a character considered undesirable according to the standards of the industry;
 - v) using or knowingly participating in the use of any manipulative or deceptive methods of trading, including those set out in article 6306 of the Rules of the Bourse;
 - vi) breaching any provisions of the Code of Ethics and Conduct for Registered Representatives, included in the Conduct and Practices Handbook Course, published by the Canadian Securities Institute.
- d) The Disciplinary Committee or the Special Committee shall, in accordance with this Rule, decide whether an act, conduct, practice or proceeding is of the sort described in sub-paragraph a) ii) of the present article.

4105 Disciplinary Penalties

(11.03.85, 11.03.92, 18.10.00, 15.03.05, 02.09.11, 00.00.00)

In finding any approved participant or, approved person ~~or restricted trading permit holder~~ guilty pursuant to a complaint therein made, or of some lesser and included offence, the Disciplinary Committee or the Special Committee may, with respect to each offence, impose any one or more of the following penalties or orders :

- a) a reprimand;
- b) a fine not exceeding \$ 1,000,000;
- c) the suspension or the revocation of the rights as an approved participant or, approved person ~~or permit holder~~ for such period and upon such conditions, including conditions of reinstatement, as the Committee may determine;
- d) the prohibition to obtain an approval for the time and upon such conditions determined by the Committee, including the conditions for the release of such a prohibition.
- e) the expulsion of the approved participant;
- f) ~~the revocation of the permit;~~
- ~~g) the making of restitution to any person who has suffered a loss as a result of the acts or omissions of a person under the jurisdiction of the Exchange;~~

- h) the obligation to take one or more courses given by the CSI Global Education Inc. or any other course deemed appropriate;
- h) the reimbursement in whole or in part of the costs and expenses (including professional fees) paid or incurred by the Bourse in connection with the complaint and the matters out of which it arose including all investigations, hearings, appeals and other proceedings before or after the complaint.

These penalties and orders shall be in addition to such other action as the Bourse may take pursuant to any other provision of its regulations.

4151 Originating Notice

(11.03.85, 11.03.92, 15.03.05, 02.09.11, 00.00.00)

- a) The Bourse must serve an originating notice on any person who is directly concerned whenever, as a result of an investigation or otherwise, it:
 - i) decides to initiate disciplinary proceedings pursuant to articles 4101 and following;
 - ii) intends to deny granting an unconditional approval to a partnership or corporation as an approved participant or an unconditional approval of a person;
 - iii) proposes to revoke, suspend or amend any of the rights or privileges of an approved participant or; of an approved person ~~or restricted trading permit holder~~;
 - iv) proposes to exercise the powers delegated to it by a securities commission or other regulatory organization.
- b) The originating notice must contain:
 - i) a reference to the regulatory provisions governing the matter;
 - ii) a summary statement of the facts alleged and intended to be relied upon by the Regulatory Division and the conclusions drawn by the Regulatory Division based on the alleged facts;
 - iii) a statement of the intent of the Bourse to conduct a hearing of the matter on a date and at a place to be determined in the originating notice or, subsequently, in the notice of hearing;
 - iv) a reminder of the existence of articles 4201 and following;
 - v) a warning that failure to file a reply within the prescribed delay may result in foreclosure from producing any witness at the hearing.

- c) A copy of the originating notice, together with proof of service, shall be filed with the Vice-President, Legal Affairs (Derivatives).

4160 Decision

(11.03.85, 29.04.86, 11.03.92, 15.03.05, 02.09.11, 00.00.00)

- a) The decision of the Disciplinary Committee must be in writing and served on the person concerned.
- b) The Disciplinary Committee must give the reasons supporting its decision.
- c) A notice of the decision must be sent to the complainant, distributed to the approved participants ~~and restricted trading permit holders~~ of the Bourse, filed in the records of the Bourse and be made available to the public and the press.
- d) Notice of the decision must be given to such other persons designated by the Disciplinary Committee hearing the matter.
- e) If an offer of settlement is rejected pursuant to articles 4201 and following, the reasons underlying such a decision by the Disciplinary Committee shall not be made public, but shall be made available to the members of the Disciplinary Committee to whom another offer of settlement would be presented.

4207 Acceptance of an Offer of Settlement

(11.03.92, 15.03.05, 02.09.11, 00.00.00)

In the event an offer of settlement is accepted by the Disciplinary Committee of the Bourse or, in the cases provided for in article 4204, by the Vice-President, Regulatory Division:

- i) the matter becomes final and the settlement constitutes a decision;
- ii) there can be no appeal of the matter;
- iii) the disposition of the matter agreed upon in the settlement must be recorded in the permanent records of the Bourse; and
- iv) a notice of the decision must be sent to the complainant, distributed to the approved participants ~~and restricted trading permit holders~~ of the Bourse, filed in the records of the Bourse and made available to the public and the press.

4256 Stay of Execution

(11.03.92, 15.03.05, 00.00.00)

Unless otherwise ordered by the Special Committee, an appeal suspends the execution of the decision of the Disciplinary Committee or of the staff of the Bourse when such decision imposes a penalty other than those provided for under paragraphs c), d), e) and f) of article 4105.

However, the suspension of the rights of an approved participant ~~or; approved person~~ ~~or restricted trading permit holder~~, the prohibition to obtain an approval, the expulsion of an approved participant and the revocation of ~~a permit or of~~ an approval of the Bourse is executory, notwithstanding appeal, unless otherwise ordered by the Special Committee.

4302 Conviction

(11.03.85, 11.03.92, 15.03.05, 00.00.00)

- a) If any approved participant ~~or; approved person~~ ~~or restricted trading permit holder~~ is convicted of a crime or of an infraction in connection with trading in securities or futures contracts or of an offence under any statute or regulation applicable to securities or derivative instruments, or if any approved participant ~~or; approved person~~ ~~or restricted trading permit holder~~ has their registration or license under any such statute or regulation suspended or revoked, the Special Committee may, without any notice, hearing or formality whatsoever, suspend the approved participant ~~or; approved person~~ ~~or restricted trading permit holder~~ and withdraw the approval of such approved person pending the completion of all appeal proceedings relating to such conviction, suspension or revocation;
- b) if no appeal is launched within the prescribed delay from such conviction, suspension or revocation, or if such a conviction, suspension or revocation is made or upheld in appeal, the Special Committee may thereupon, without any notice, hearing or formality whatsoever, suspend or expel such approved participant; ~~or suspend or revoke the permit of such restricted trading permit holder~~ and suspend or revoke the approval of such approved person.

4303 Expulsion or Suspension by Another Exchange

(11.03.85, 11.03.92, 15.03.05, 00.00.00)

If any approved participant ~~or; approved person~~ ~~or restricted trading permit holder~~ is suspended, expelled or has their approval ~~or permit~~ suspended, withdrawn or revoked by another exchange or self-regulatory organization, the Special Committee may suspend or expel such approved participant or suspend or revoke the approval ~~or permit~~ of such approved person ~~or restricted trading permit holder~~, provided that the Bourse shall forthwith issue a Notice of Hearing and convene a hearing within the following fifteen business (15) days.

4304 Failure to Provide Information or to Appear

(11.03.85, 11.03.92, 15.03.05, 02.09.11, 00.00.00)

If any approved participant, employee of an approved participant ~~or; approved person~~ ~~or restricted trading permit holder~~ refuses or neglects to provide information or to appear in the manner prescribed by the regulations of the Bourse, the Special Committee may without any notice, hearing or formality whatsoever, suspend the approved participant ~~or; approved person~~ ~~or restricted trading permit holder~~ until the information has been provided or the appearance has been made.

4305 Interim Orders for Unsatisfactory Financial Condition or Practices

(11.03.85, 14.08.90, 11.03.92, 15.03.05, 02.09.11, 00.00.00)

- a) Notwithstanding anything to the contrary contained in any other provision of the regulations of the Bourse, if following any inspection or investigation with respect to the business, affairs or conduct of an approved participant or, approved person ~~or restricted trading permit holder~~, whether made pursuant to the regulations of the Bourse, the applicable legislation or otherwise, or if, on the basis of any reliable information otherwise obtained by or given to the Regulatory Division, it is established that:
- i) such approved participant ~~or restricted trading permit holder~~ is insolvent or does not have the risk adjusted capital required under the regulations of the Bourse;
 - ii) the financial or general condition of such approved participant or, approved person ~~or restricted trading permit holder~~ is such that it is or may become detrimental to the reputation of the Bourse or to the interests or welfare of the Bourse or the public;
 - iii) the system of book or record keeping or accounting used by such approved participant ~~or restricted trading permit holder~~ is unsatisfactory; or
 - iv) the methods or practices adopted by such approved participant or, approved person ~~or restricted trading permit holder~~ in carrying on business may be detrimental to the reputation of the Bourse or to the interests or welfare of the Bourse or the public;

the Special Committee may impose without any notice, hearing or formality whatsoever, one or more of the interim orders described in paragraph b) hereunder.

- b) The interim orders that may be imposed pursuant to paragraph a) are:

- i) the suspension of the approved participant or of any of the rights and privileges of the approved participant or, approved person ~~or restricted trading permit holder~~ for a period and upon the terms and conditions, if any, determined by the Special Committee;
- ii) the suspension or amendment of the terms and conditions of a previously granted approval;
- iii) the imposition of any terms and conditions that must be satisfied by a person to continue as an approved participant or, approved person ~~or restricted trading permit holder~~; or
- iv) the imposition of any other terms, conditions or instructions deemed appropriate in the circumstances including, without limitation:
 - 1. restricting one or more sectors of the approved participant's operations;

2. requiring the attendance at the approved participant's premises, for the surveillance of its trading activities on the derivatives instruments listed on the Bourse, of employees or representatives of the Bourse;
 3. requiring the mailing of notices to clients in terms specified by the Regulatory Division.
- c) If interim orders are imposed pursuant to the above paragraph b), the Bourse must issue a notice of hearing to be held within fifteen (15) business days following the Special Committee's decision unless the parties agree to an extension of the delay or to a waiver of the hearing.
 - d) Interim orders imposed by the Special Committee remain in force until the hearing is held, at which time the orders may be confirmed, set aside or modified.

4306 Defaulters

(11.03.85, 11.03.92, 13.04.99, 15.03.05, 02.09.11, 00.00.00)

- a) An approved participant or, an approved person ~~or a restricted trading permit holder~~ may be declared a defaulter by the Special Committee without any notice, hearing or formality whatsoever in any of the following cases:
 - i) the approved participant or, the approved person ~~or the restricted trading permit holder~~ fails to pay on demand any assessment, fee or charge which has become due to the Bourse pursuant to the regulations of the Bourse or its list of fees, or any other indebtedness to the Bourse, such as a fine, or the costs of a hearing, investigation or surveillance operation;
 - ii) the approved participant or, the approved person ~~or the restricted trading permit holder~~ fails to meet or admits or discloses his inability to meet his liabilities or obligations to the Bourse, another approved participant, ~~restricted trading permit holder~~, or to the public;
- b) An approved participant or, an approved person ~~or a restricted trading permit holder~~ who is declared a defaulter by the Special Committee who makes an assignment of his property under the applicable legislation or against whom a receiving order is issued under this same law shall automatically be suspended.
- c) If the cause of such default is not corrected to the satisfaction of the Special Committee within fourteen (14) business days after a person was declared a defaulter, or such other period as the Special Committee may decide, the approved participant may be expelled, or the approval of the approved person ~~or the permit of the restricted trading permit holder~~ may be suspended or revoked by the Special Committee without any notice, hearing or formality whatsoever.
- d) No approved participant shall do business for the account of a defaulter without the written consent of the Special Committee.

6305 Front Running

(10.10.91, ~~00.00.00~~)

No ~~member~~ approved participant, person employed by or acting on behalf of an approved participant or person associated with ~~a member or restricted permit holder~~ an approved participant shall:-

- a) take advantage of a customer's order by trading ahead of it;
- b) engage in transactions based in whole or in part on non-public information concerning pending transactions in securities, options or future contracts, which are likely to affect the market prices of any other securities, options or future contracts, unless such transactions are made solely for the purpose of providing a benefit to the client who is proposing or engaged in the transactions.

6306 Manipulative or Deceptive Methods of Trading

(10.10.91, 31.01.05, ~~00.00.00~~)

No approved participant, person employed by or acting on behalf of an approved participant ~~or~~ or person associated with an approved participant ~~or restricted trading permit holder~~ may use or knowingly participate in the use of any manipulative or deceptive methods of trading in connection with the purchase or sale of any securities or derivative instruments listed on the Bourse.

Without in any way limiting the generality of the foregoing, the following shall be deemed manipulative or deceptive methods of trading:-

- a) effecting a transaction or a series of transactions or posting purchase or sale orders on securities or on derivative instruments traded on the Bourse alone or with one or more persons, intentionally or repeatedly and with the objective of unfairly influencing the market price of securities or derivatives instruments to make a profit from such action;
- b) creating a false or misleading appearance of trading in such securities or derivative instruments;
- c) entering orders or effecting transactions whose execution does not result in any change in the beneficial or economic ownership of the relevant securities or derivative instruments;
- d) effecting a transaction which creates an artificial price or new highs or new lows in such securities or derivative instruments during the same trading session without being justified by market conditions;
- e) entering orders or effecting a transaction with the purpose of transferring funds, assets or liabilities in contravention of legal or regulatory requirements.

6366 Access to Electronic Trading

(25.09.00, 24.09.01, 19.03.02, 03.11.04, 01.03.14, ~~00.00.00~~)

- A) Only approved participants of the Bourse ~~and restricted permit holders of the Bourse~~, through their respective clearing approved participants, will have access to the electronic trading for derivatives instruments traded on the Bourse and this, at the following conditions:
 - a) certify to the Bourse that only their designated personnel approved by the Bourse and who has received the required training has access to the said system;

- b) certify to the Bourse that only the designated personnel approved by a recognized exchange or association as described in article 7452 6) b) ii) of the Rules of the Bourse and who has received the required training has access to the said system;
- c) put in place an internal security procedure for access to the electronic trading system; and
- d) obtain the prior approval of the Bourse.

Each approved participant ~~and each restricted permit holder~~ is entirely and exclusively responsible for any unauthorized access to the said system.

The approved participant must give notice to the Bourse of the termination of employment of its designated personnel approved by the Bourse and this, within a delay of ten (10) business days from the date of termination of employment.

B) Approved participants can authorize clients to transmit electronically orders to the Bourse through the systems of the approved participant, using the approved participant's identifier. In order to do so, the following conditions must be complied with:

1. Definitions

- a) For the purposes of this article, a client is defined:
 - i) as a person, other than those registered as an investment dealer with a securities regulatory authority or approved as a foreign approved participant by the Bourse, having entered into a written agreement with an approved participant which permits to transmit electronically orders to the Bourse through the systems of an approved participant, using the approved participant's identifier;
 - ii) as an investment dealer registered with a securities regulatory authority, or a foreign approved participant of the Bourse, having entered into a written agreement with an approved participant which permits the investment dealer or foreign approved participant to transmit electronically orders to the Bourse, through the systems of the approved participant, using the approved participant's identifier.
- b) For the purpose of this article, the terms "Electronic Trading Rules" refer to *Regulation 23-103 respecting Electronic Trading (CQLR c Chapter V-1.1, r. 7.1)*, as well as any applicable policy statement or notice.
- c) For the purpose of this article, the terms "Bourse and regulatory requirements" refer to the rules, policies and operational procedures of the Bourse, or to any condition imposed by the Bourse for the purpose of the electronic access provided to a client by an approved participant, as well as to applicable securities or derivatives legislation.

2. Conditions

2.1 An approved participant must:

- a) establish, maintain and apply standards that are reasonably designed to manage, in accordance with prudent business practices, the approved participant's risks associated with providing an electronic access to a client, pursuant to paragraph B), including

those set out in the Electronic Trading Rules and, as the case may be, those associated with market maker assignments granted to the client;

- b) assess and document that a client meets the standards established by the approved participant, under subparagraph a).
- 2.2 The standards thus established by an approved participant, under subsection 2.1, shall include that a client must not have an electronic access to the Bourse, pursuant to paragraph B), unless:
- a) it has sufficient resources to meet any financial obligations that may result from the use of such electronic access by that client;
 - b) it has reasonable arrangements in place to ensure that all individuals using such electronic access, on behalf of the client, have reasonable knowledge of and proficiency in the use of the order entry system that facilitates such electronic access;
 - c) it has reasonable knowledge of and the ability to comply with all applicable Bourse and regulatory requirements;
 - d) it has reasonable arrangements in place to monitor the entry of orders through such electronic access.
- 2.3 An approved participant must assess, confirm and document, at least annually, that a client continues to meet the standards established by the approved participant pursuant to subsection 2.1.
- 2.4 An approved participant must not allow any order to be transmitted to the Bourse, pursuant to paragraph B), unless:
- a) the approved participant is maintaining and applying the standards it has established under subsections 2.1, 2.2 and 2.3;
 - b) the approved participant is satisfied that the client meets the standards established by the approved participant under subsections 2.1, 2.2 and 2.3;
 - c) the approved participant is satisfied that the client is in compliance with the written agreement entered into with the approved participant, under subsection 2.5;
 - d) the order is subject to all applicable requirements pursuant to the Electronic Trading Rules, including those pertaining to the risk management and supervisory controls, policies and procedures of the approved participant.
- 2.5 An approved participant must not provide to a client an electronic access to the Bourse, pursuant to paragraph B), unless the client has entered into a written agreement with the approved participant, which provides that:
- a) the client's trading activity shall comply with all applicable Bourse and regulatory requirements;
 - b) the client's trading activity shall comply with the product limits and credit or other financial limits specified by the approved participant;

- c) the client shall take all reasonable steps to prevent unauthorized access to the technology that facilitates such electronic access;
 - d) the client shall not permit any person to use such electronic access provided by the approved participant, other than those authorized by a client as defined in subparagraph 1 a) (ii) or, in the case of a client as defined in subparagraph 1) a) (i), other than those authorized and named by the client under the provision of the agreement referred to in subparagraph h);
 - e) the client shall fully cooperate with the approved participant in connection with any investigation or proceeding by the Bourse with respect to trading conducted pursuant to such electronic access, including, upon request by the approved participant, providing access to the Bourse to information that is necessary for the purposes of the investigation or proceeding;
 - f) the client shall immediately inform the approved participant, if it fails or expects not to meet the standards set by the approved participant;
 - g) when trading for the accounts of another person, under subsection 2.11, the client shall ensure that the orders of the other person are transmitted through the systems of the client and shall be subject to reasonable risk management and supervisory controls, policies and procedures established and maintained by the client;
 - h) a client, as defined under subparagraph 1 a) (i), shall immediately provide to the approved participant, in writing, the names of all personnel acting on the client's behalf that it has authorized to enter an order, using the electronic access to the Bourse pursuant to paragraph B), as well as any changes thereof;
 - i) the approved participant shall have the authority, without prior notice, to reject any order, to vary or correct any order to comply with Bourse and regulatory requirements, to cancel any order entered on the Bourse and to discontinue accepting orders from the client.
- 2.6 An approved participant must not allow a client to have, or continue to have, an electronic access to the Bourse pursuant to paragraph B), unless it is satisfied that the client has reasonable knowledge of the applicable Bourse and regulatory requirements, and of the standards established by the approved participant under subsections 2.1, 2.2 and 2.3.
- 2.7 An approved participant must ensure that a client receives any relevant amendments to the applicable Bourse and regulatory requirements, or changes or updates to the standards established by the approved participant under subsections 2.1, 2.2 and 2.3.
- 2.8 Upon providing to a client an electronic access to the Bourse, pursuant to paragraph B), an approved participant must ensure the client is assigned a client identifier in the form and manner required by the Bourse.
- 2.9 An approved participant must ensure that an order entered by a client, using such an electronic access to the Bourse, includes the appropriate client identifier.
- 2.10 An approved participant must promptly inform the Bourse if a person ceases to be a client pursuant to paragraph B).

2.11 An approved participant must not provide an electronic access to the Bourse, pursuant to paragraph B), to a client as defined in subparagraph 1 a) i) that is trading for the account of another person, unless the client is:

- a) registered or exempted from registration as an adviser under securities legislation; or
- b) a person that
 - i) carries on business in a foreign jurisdiction;
 - ii) under the laws of the foreign jurisdiction, may trade for the account of another person, using such an electronic access; and
 - iii) is regulated in the foreign jurisdiction by a signatory to the International Organization of Securities Commissions' Multilateral Memorandum of Understanding.

2.12 If a client referred to in section 2.11 is using such an electronic access to the Bourse to trade for the account of another person, it must ensure that the orders of the other person are initially transmitted through the systems of the client.

2.13 An approved participant must ensure that when a client is trading for the account of another person, using an electronic access to the Bourse pursuant to paragraph B), the orders of the other person are subject to reasonable risk management and supervisory controls, policies and procedures established and maintained by the client.

3. Responsibility

An approved participant who provides an electronic access to the Bourse, pursuant to paragraph B), remains responsible for compliance with all applicable Bourse and regulatory requirements with respect to the entry and execution of orders from its clients.

4. Miscellaneous

4.1 An approved participant must immediately report to the Bourse, in writing, that it has terminated the electronic access of a client pursuant to paragraph B).

4.2 An approved participant must immediately report to the Bourse, in writing, if it is aware of or has reason to believe that a client has, or may have, breached a material provision of any standard established by the approved participant, or of the written agreement between the approved participant and the client, pursuant to section 2.

6376 Order Identification

(25.09.00, 24.09.01, 29.10.01, 01.04.04, 00.00.00)

Approved participants must ensure the proper identification of orders when entered into the trading system in order to ensure compliance with the provisions of article 6374 regarding management of priorities.

- a) "Order for the account of a customer" means an order for a security or a derivative instrument entered for the account of a customer of any approved participant or of a customer of a related firm of an approved participant, but does not include an order entered for an account in which an approved

participant, a related firm of an approved participant ~~or~~; a person approved by the Bourse ~~or a restricted trading permit holder~~ has a direct or indirect interest, other than an interest in a commission charged;

- b) “Order for the account of a professional” means an order for a security or a derivative instrument for an account in which a director, officer, partner, employee or agent of an approved participant or of a related firm of the approved participant ~~or~~; a person approved by the Bourse ~~or a restricted trading permit holder~~ has a direct or indirect interest, other than an interest in a commission charged. The Bourse may designate any order as being an order for the account of a professional if, in its opinion, circumstances justify it;
- c) “Order for the account of the firm” means an order for a security or a derivative instrument for an account in which the approved participant or a related firm of the approved participant has a direct or indirect interest, other than an interest in a commission charged;
- d) “Order for an insider or significant shareholder” means an order for a security or a derivative instrument for the account of a client, a professional or a firm who is an insider and/or significant shareholder of the issuer of the underlying security which is the subject of the order. If such client, professional or firm is both an insider and a significant shareholder, the significant shareholder designation must be used.

For the purposes of this article:-

“insider” means a person who is an insider, pursuant to applicable securities legislation, of the issuer of the security underlying the security or the derivative instrument traded;

“significant shareholder” means any person holding separately, or jointly with other persons, more than 20 per cent of the outstanding voting securities of the issuer whose security is underlying the security or the derivative instrument traded.

“related firm” has the meaning given to that term in the definitions in article 1102 of the Rules of the Bourse.

6378 Receipt of Orders

(25.09.00, 24.09.01, 29.10.01, ~~00.00.00~~)

Any order received or initiated by an approved participant ~~or a restricted permit holder~~ must be time-stamped in accordance with articles 6373 and 6377 of the Rules.

6387 Malfunction of the Trading System

(25.09.00, 24.09.01, 29.10.01, ~~00.00.00~~)

Should the electronic trading system malfunction, a Market Supervisor of the Bourse can interrupt access to the system.

The orders recorded before the malfunction can be withdrawn from the system by the approved participant ~~or the restricted permit holder~~ by preparing cancellation instructions for the orders. Upon the system functioning again, there will be a pre-opening session where the cancellation instructions for the orders will be executed.

6604 Adjustment to Terms of Contract

(10.11.92, 07.09.99, 28.01.02, ~~00.00.00~~)

The terms of a contract are subject to adjustment in accordance with the Rules and Policies of the Bourse, or with General Conditions of the Clearing Corporation. When adjustments are made, a notice thereof shall be promptly ~~given to approved participants and to restricted permit holders~~published by the Bourse.

6636 Fast Market

(10.11.92, 07.09.99, 11.02.00, abr. 00.00.00)

~~Upon request from the assigned specialist (or the Designated Primary Market Maker or Order Book Official), a Floor Official may declare "fast market" conditions in a determined class of options when:~~

~~a)the price of the underlying interest cannot be determined due to the wide spread in the bid/ask quotation; or~~

~~b)the price movements in the underlying interest are too erratic; or~~

~~e)the orderflow of options is too great to ensure orderly trading.~~

~~The Floor Official shall immediately activate the fast market indicator via the quote dissemination system, and prices reported during such period shall be indicative only. However, the assigned specialist or the Designated Primary Market Maker shall have the obligation to verbally quote a firm two-sided market upon request providing that his bid/ask spread may be twice his normal commitment. The minimum guaranteed fill remains the same.~~

~~Upon resumption of normal trading activity, after having consulted the assigned specialist, (or the Designated Primary Market Maker or the Order Book Official) the Floor Official shall announce that the market has resumed normal activity.~~

6651 Position Limits for options

(06.08.86, 19.05.87, 08.09.89, 06.08.90, 20.03.91, 10.11.92, 07.04.94, 08.07.99, 07.09.99, 11.02.00, 28.01.02, 26.09.05, 20.05.10, 25.06.12, 12.04.13, 04.06.15, 00.00.00)

A) Except as provided in paragraph D) of this article, no approved participant ~~or restricted trading permit holder~~ shall make for any account in which it has an interest, or for the account of any client, an options transaction if the approved participant ~~or the restricted trading permit holder~~ has reason to believe that as a result of such transaction the approved participant or its client, ~~or the restricted trading permit holder~~ would, acting alone or in concert with others, directly or indirectly, hold, control or be obligated with respect to an options position on the same side of the market relating to the same underlying interest (whether long or short) in excess of the options position limits established by the Bourse.

B) Except otherwise indicated, the applicable position limits for options are as follows:

1. Options on stocks, exchange-traded funds or income trust units

a) 25,000 contracts where the underlying security does not meet the requirements set out in sub-paragraphs B) 1. b) and B) 1. c) of the present article;

b) 50,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least

20 million shares or units, or the most recent interlisted six-month trading volume of transactions totals at least 15 million shares or units of the underlying interest and at least 40 million shares or units of this underlying interest are currently outstanding;

- c) 75,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 40 million shares or units, or the most recent interlisted six-month trading volume on the underlying interest totals at least 30 million shares or units of the underlying interest and at least 120 million shares or units of this underlying interest are currently outstanding;
- d) 200,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 80 million shares or units, or the most recent interlisted six-month trading volume on the underlying interest totals at least 60 million shares or units of the underlying interest and at least 240 million shares or units of this underlying interest are currently outstanding;
- e) 250,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 100 million shares or units of the underlying interest or the most recent interlisted six-month trading volume on the underlying interest totals at least 75 million shares or units of the underlying interest and at least 300 million shares or units of this underlying interest are currently outstanding;
- f) 300,000 contracts for options on the following exchange-traded funds:

- units of the iShares S&P/TSX 60 Index Fund (XIU).

2. Debt options

8,000 contracts.

3. Index options

500,000 contracts.

4. Sector index options

40,000 contracts.

5. Options on futures

The number of contracts established as the position limits for the underlying futures contract.

For the purpose of this article, options contract positions are aggregated with the underlying futures contract positions. For aggregation purposes, the futures equivalent of one in-the-money option contract is one futures contract and the futures equivalent of one at-the-money or out-of-the-money option contract is half a futures contract.

6. Sponsored options

The position limits described above apply to sponsored options. However, these position limits must be adjusted by using an equivalent unit of trading.

When the underlying interest is traded on a market other than the Bourse, the position limits of this market apply to sponsored options by using an equivalent unit of trading.

7. Currency options

40,000 contracts when the trading unit is 10,000 units of foreign currency. The limit will be adjusted to obtain the same notional amount if the trading unit is amended or if the Bourse introduces new trading units.

C) For the purpose of this article:

1. calls written, puts held and short underlying interest are on the same side of the market and puts written, calls held and long underlying interest are on the same side of the market;

~~2. the account of a restricted trading permit holder will not be counted with that of his clearing broker unless the clearing broker has an interest in the account;~~

- ~~3~~2. the Bourse may, by notice, change the position limits. A change in the position limit will be effective on the date set by the Bourse and reasonable notice shall be given of each new position limit.

D) Conversions, reverse conversions, long and short hedges

1. For the purposes of this article the following defined hedges are approved by the Exchange:
 - a) conversion: where an opening long put transaction in any option is entirely offset by an opening short call transaction having the same expiry month and strike price in the same option class, either of which option transaction is effectively hedged by a long position in the underlying interest of the option;
 - b) reverse conversion: where an opening short put transaction in any option is entirely offset by an opening long call transaction having the same expiry month and strike price in the same option class, either of which option transaction is effectively hedged by a short position in the underlying interest of the option;
 - c) short hedge: where an opening long call transaction or an opening short put transaction in any option is entirely offset by a short position in the underlying interest of the option;
 - d) long hedge: where an opening short call transaction or an opening long put transaction in any option is entirely offset by a long position in the underlying interest of the option.
2. In addition to the options position limits set out in paragraph B), any one account may hold an amount not exceeding the applicable paragraph B) limit of any combination of the approved hedge positions defined in sub-paragraphs D) 1. a) to D) 1. d), inclusive.
3. For all position limits set out in this article, in the case of conversion and reverse conversion as defined in paragraph D) 1. a) and b), such limits shall apply as if calls written and puts held, or puts written and calls held, as the case may be, were not on the same side of the market.

E) Exemption

As described in Policy C-1, an approved participant or a member-client may file, with in the Exchange form prescribed, an application ~~to with the Bourse to~~ obtain on behalf of a bona fide hedger or for risk management purposes an exemption from the position limits prescribed ~~in this article~~ by the Bourse. The application must be filed on the appropriate form, no later than the next business day after the limit has been exceeded. If the application is rejected, the member shall reduce the position below the prescribed limit within the period set by the Exchange. The Exchange may modify any exemption which has been previously granted. ~~A bona fide hedger may also under certain circumstances file directly with the Exchange, in the form prescribed, an application to obtain an exemption from the position limits prescribed by the Exchange.~~

6652 Exercise Limits (10.11.92)

Except with the written permission of the Exchange, no ~~member-approved participant or restricted permit holder~~ shall exercise, for any account in which he has an interest or for the account of any client, a long position in any option where such ~~member-approved participant or~~ client or restricted permit holder, acting alone or in concert with others, directly or indirectly, has or will have exercised, within any five (5) consecutive business days an aggregate long position exceeding the number of contracts established as position limits by article 6651.

7007 Restricted Trading Permit Holders
(01.05.89, 01.04.93, 13.09.05, 14.01.16, abr. 00.00.00)

~~Restricted trading permit holders who are not dealing with the public, except in the capacity of trading representative for an approved participant, are not required to maintain any minimum net worth. However, they must make an annual declaration to the Bourse that their status in this respect has not changed during the past year.~~

~~Restricted trading permit holders who clear their transactions through a clearing approved participant must maintain a net worth equal to \$25,000.~~

~~If, in addition, these restricted trading permit holders act as market makers or as traders in futures contracts, they must, in addition to the net worth required in the preceding paragraph, maintain an additional net worth~~

~~1) as market makers:~~

~~of \$10,000 per assignation up to a maximum of \$25,000;~~

~~2) as futures contracts traders:~~

~~\$25,000.~~

~~For the purpose of this article, "net worth" means the excess of cash and marketable securities, marked to market, over the aggregate liabilities.~~

~~This requirement is deemed satisfied if a letter of guarantee, in a form prescribed by the Bourse and containing a provision regarding the maintenance of "net worth", has been issued and is still in effect on behalf of such restricted trading permit holder by the clearing approved participant and in accordance with article 6082. The clearing approved participant must provide against its own capital any deficiency of "net worth" in the account of the restricted trading permit holder for whom it has issued a letter of guarantee.~~

7008 Joint Account

(01.04.93, 13.09.05, arb. 00.00.00)

- ~~1) A restricted trading permit holder who is a market maker and does not deal with the public may have a joint account agreement with one other person who may not be an approved participant of the Bourse. Each joint account agreement must comply with the requirements of the Bourse, including disclosure for all other securities accounts in which the partner who is not an approved participant has a direct or an indirect interest and be approved by the Bourse. Such approval may be withdrawn at the discretion of the Bourse.~~
- ~~2) Each market maker who makes an arrangement to finance his transactions in securities on which he has been appointed must inform the Bourse of the name of the creditor and the terms of such arrangement. The Bourse must be informed immediately of the intention of any party to terminate or change any such arrangement, or to issue a margin call.~~
- ~~3) On request, a market maker must submit to the Bourse a monthly report of his use of credit pursuant to the present rule.~~

7153 Trading activity statement - Restricted Trading Permit Holders

(04.05.98, 13.09.05, 22.03.10, abr. 00.00.00)

~~Upon request from the Bourse, the clearing approved participant has the obligation to provide a trading activity statement from the previous day or for a specified period of time, for each restricted trading permit holder for whom the approved participant clears and guarantees the transactions made on the Bourse. This statement must contain the following information:~~

- ~~a) daily activity result;~~
- ~~b) year to date activity result;~~
- ~~c) margin required on positions held;~~
- ~~d) guarantee deposits;~~
- ~~e) cash movements (deposits, withdrawals, interest or dividend adjustments to the account); and~~
- ~~f) the global balance of account.~~

7450 Business Conduct

(01.04.93, 13.09.05, 22.03.10, 00.00.00)

All approved participants must at all times adhere to the principles of good business practice in the conduct of their affairs.

The business of approved participants or; approved persons ~~or restricted trading permit holders~~ and their dealings amongst themselves and with the public must at all times comply with the standards set forth in the Bourse regulations.

9001 Definitions

(01.01.05, 01.02.07, 30.11.15, 14.01.16, 00.00.00)

For the purpose of the present Rule:

“**approved participant account**” means all non-client accounts including firm accounts, market maker accounts, ~~restricted trading permit holder accounts for which a clearing approved participant has issued a letter of guarantee~~ and sponsor accounts;

“**client account**” means an account for a client of an approved participant, but does not include account in which a member of a self-regulatory organization, or a related firm, approved person or employee of such an approved participant, member or related firm, as the case may be, has a direct or indirect interest, other than an interest in a commission charged;

“**escrow receipt**” means:

- i) in the case of an equity, exchange-traded fund or income trust unit or bond option, a document issued by a financial institution approved by the Canadian Derivatives Clearing Corporation certifying that a security is held and will be delivered upon exercise by such financial institution in respect of a specified option of a particular client of an approved participant; or
- ii) in the case of an OCC option, a document issued by a depository approved by the clearing corporation, after executing and delivering agreements required by The Options Clearing Corporation, certifying that a security is held and will be delivered upon exercise by such financial institution in respect of a specified OCC option of a particular client of an approved participant;

“**firm account**” means an account established by an approved participant, which is confined to positions carried by the approved participant on its own behalf;

“**floating margin rate**” means:

- i) the last calculated regulatory margin interval, effective for the regular reset period or until a violation occurs, such rate to be reset on the regular reset date, to the calculated regulatory margin interval determined at that date; or
- ii) where a violation has occurred, the last calculated regulatory margin interval determined at the date of the violation, effective for a minimum of twenty trading days, such rate to be reset at the close of the twentieth trading day, to the calculated regulatory margin interval determined at that date, where a reset results in a lower margin rate.

For the purposes of this definition, the term “regular reset date” is the date subsequent to the last reset date where the maximum number of trading days in the regular reset period has passed.

For the purposes of this definition, the term “regular reset period” is the normal period between margin rate resets. This period must be determined by the Canadian self-regulatory organizations with member regulation responsibilities and must not be no longer than sixty trading days.

For the purpose of this definition, the term “regulatory margin interval” means the margin interval calculated by the Canadian Derivatives Clearing Corporation.

For the purpose of this definition, the term "violation" means the circumstance where the maximum 1 or 2 day percentage change in the daily closing prices is greater than the margin rate;

"**index**" means an equity index where:

- i) the basket of equity securities underlying the index is comprised of eight or more securities;
- ii) the weight of the single largest security position in the basket of equity securities underlying the index represents no more than 35% of the overall market value of the basket;
- iii) the average market capitalization for each security position in the basket of equity securities underlying the index is at least \$50 million; and
- iv) in the case of foreign equity indices, the index is both listed and traded on an exchange that meets the criteria for being considered a recognized exchange as set out in the definition of "regulated entities" included in the General Notes and Definitions of the "Joint Regulatory Financial Questionnaire and Report" form of the Investment Industry Regulatory Organization of Canada;

"**market maker account**" means a firm account of an approved participant that is confined to transactions initiated by the approved participant acting as a market maker;

"**non-client account**" means an account established with an approved participant by another member of a self-regulatory organization, a related firm, an approved person or employee of an approved participant or of a member of self-regulatory organization or of a related firm, as the case may be, in which the approved participant does not have an interest, direct or indirect, other than an interest in fees or commissions charged;

"**OCC option**" means a call option or a put option issued by The Options Clearing Corporation;

"**tracking error margin rate**" means the last calculated regulatory margin interval for the tracking error resulting from a particular offset strategy. The meaning of the term "regulatory margin interval" and the margin rate policy are the same as for the floating margin rate.

For the purpose of the present Rule:

9221 Exchange Traded Futures Contracts – General
(01.01.05, 23.01.06, 00.00.00)

- a) With respect to an account of an approved participant ~~or, market maker, or restricted trading permit holder for which a clearing approved participant has issued a letter of guarantee~~, the Bourse may establish certain charges against the capital of the approved participant carrying the account, which charges may be less onerous than margin requirements applicable to clients but for which the approved participant must maintain adequate capital resources at all times;
- b) positions of approved participants and customers must be marked to market daily and the required capital must be determined by using the greatest of:
 - i) the rate required by the futures contract exchange on which the contract is entered into or its clearing corporation; or

- ii) the rate required by the broker through which the approved participant ensures the clearing of the futures contract;
- c) in the case of a futures contract exchange or its clearing corporation that prescribes margin requirements based on initial and maintenance rates, initial capital is required at the time the contract is entered into and the amount of such capital must not be less than the prescribed initial rate. Subsequently, the approved participant must maintain, for each position held, a capital amount equivalent to the prescribed maintenance rate;
- d) capital requirements established by the Bourse may be made applicable to one or more rather than all approved participants if deemed necessary by the Bourse;
- e) specific capital requirements may be applicable on spread positions when an approved participant account holds such positions. Every approved participant must clearly identify such spread positions in its records relating to margin calculations;
- f) from time to time the Bourse may impose special capital requirements with respect to particular futures contracts or particular positions in futures contracts.

9401 Exchange Traded Bond Options – General

(01.01.05, 01.02.07, 14.01.16, 00.00.00)

- a) With respect to an approved participant account or market maker account, ~~or of a restricted trading permit holder account for which an approved participant (or a clearing firm) has issued a letter of authorization or of a sponsor account~~, the Bourse has established certain charges against capital;
- b) in the treatment of spreads, the long position may expire before the short position;
- c) for any short position carried for a client or non-client account where the account has not provided required margin, any shortfall will be charged against the approved participant's capital;
- d) where an approved participant account holds both CDCC bond options and OCC bond options that have the same underlying interest, the OCC bond options may be considered to be bond options for the purposes of the calculation of the capital requirements for the account under the provisions of this section;
- e) from time to time the Bourse may impose special capital requirements with respect to particular bond options or particular positions in bond options;
- f) in the pairing described in articles 9405, 9406 and 9424, bond options of different classes for which the underlying bonds have the same margin rate may be paired together provided that:
 - i) the exercise price of the bond option for which the market value of the underlying bond is the lowest must be increased by the difference between the market value of the underlying bonds; and

- ii) to the capital required pursuant to articles 9405, 9406 and 9424 must be added an amount equal to the margin that would be required on the net bond position which would result if both bond options were exercised.

9421 Exchange Traded Futures Contracts – General
(01.01.05, 23.01.06, 14.01.16, 00.00.00)

- a) With respect to an account of an approved participant ~~or, market maker, or restricted trading permit holder for which a clearing approved participant has issued a letter of guarantee~~, the Bourse has established certain charges against the capital of the approved participant carrying the account, which charges may be less onerous than margin requirements applicable to clients but for which the approved participant must maintain adequate capital resources at all times;
- ~~e~~b) specific capital requirements may be applicable on spread positions when an approved participant account holds such positions. Every approved participant must clearly identify such spread positions in its records relating to margin calculations;
- ~~f~~c) from time to time the Bourse may impose special capital requirements with respect to particular futures contracts or particular positions in futures contracts.

1102 Definitions

(07.09.99, 31.01.01, 08.07.02, 02.09.03, 17.06.05, 30.07.13, 17.07.15, 00.00.00)

The following is an alphabetical index of each term defined in English in this article with the corresponding French term in brackets.

[...]

Market Maker (Mainteneur de marché)

Market Maker Account (Compte de mainteneur de marché)

Market Maker Agreement (Convention de mainteneur de marché)

Market Maker Assignment (Assignation à titre de mainteneur de marché)

[...]

Market Maker refers to an approved participant or a client of an approved participant who has been granted a market maker assignment in accordance with the Regulations of the Bourse.

Market Maker Agreement means an agreement entered into by the Bourse and a market maker which sets out the terms and conditions of the market maker assignment.

Market Maker Account means a firm account of an approved participant that is confined to transactions initiated by the approved participant acting as a market-maker.

Market Maker Assignment means an assignment granted by the Bourse to a market maker to carry out certain market making obligations with regards to specific listed products pursuant to the Regulations of the Bourse.

[...]

2511 Liability of the Bourse
(11.04.05, 00.00.00)

- 1) Any claim against the Bourse by an approved participant, an approved person, or a partner, shareholder, director, officer, agent or employee of an approved participant shall be governed by the laws of Québec.
- 2) Except as expressly provided herein, the Bourse and its directors, officers, committee members and employees shall be exempt from all liability arising out of the acts or omissions of the Bourse, an affiliate of the Bourse, or the directors, officers, employees, agents, and independent contractors of the Bourse or of an affiliate of the Bourse.
- 3) The exemption from liability set out in paragraph 2 above shall not extend to, nor limit liability for damages caused through an intentional or gross fault as defined in Article 1474 of the Civil Code of Québec.
- 4) Notwithstanding paragraph 2 above, the Bourse undertakes to make payments in settlement of claims by approved participants for losses arising out of an error by an employee of the Bourse in regard to an order of the approved participant on the trading systems of the Bourse. Such payments shall be subject to the following conditions and limitations:
 - a) Any such payment may only be made as compensation for losses, except for loss of profit, sustained as an immediate, direct and foreseeable consequence of an error by an employee of the Bourse in regard to an order on the trading systems of the Bourse.
 - b) The Bourse's total liability in respect of all such claims by all approved participants of the Bourse in any calendar year shall be limited to \$240,000. All claims by approved participants shall be reviewed and evaluated by the Bourse on a yearly basis and shall share *pro rata* whenever the aggregate amount payable in respect of all such claims by all approved participants as determined by the Bourse exceeds the yearly limit.
 - c) Immediately upon becoming aware of an error for which it may make a claim, the approved participant must inform the Bourse of all the relevant details of which the approved participant is aware in order for the Bourse to trace the affected order in its systems (the "Advance Notice Requirement"). The Bourse will process a claim for payment only if (1) the approved participant has complied with the Advance Notice Requirement, (2) the approved participant has submitted a claim in writing to the Bourse within thirty days from the date the approved participant first knew of the loss, but in any event no later than thirty days from the end of the calendar year during which the approved participant's order relating to the loss occurred, and (3) the approved participant has provided to the Bourse, as soon as available but in any event no later than thirty days from the earlier of (a) the date the approved participant first knew of the loss and (b) the end of the calendar year during which the approved participant's order relating to the loss occurred, all documents and information reasonably required by the Bourse to enable it to evaluate the claim (the "Required Information"). The Bourse undertakes to review and evaluate such claims in a commercially reasonable manner and to advise the approved participant of its decision regarding payment of the claim within thirty days from the receipt of the Required Information. The Bourse undertakes to pay the amount which it determines is due in respect of each claim, subject to any pro rating required under paragraph 4) b) above, within sixty days from the end of the calendar year in which the loss occurred. Any disputed claim must be arbitrated in accordance with articles 5201 *et seq.* of Rule Five, which shall apply *mutatis mutandis*.

- d) Without limiting the generality of paragraph 4) a), no loss shall be eligible for payment by the Bourse under paragraph 4):
 - i) if it was the result of a failure or defect in the hardware or software used by the Bourse or an interruption in the supply of energy or communications services, except to the extent that the fault of an employee of the Bourse contributed to the loss;
 - ii) if it relates to the market surveillance or regulatory activities of the Bourse;
 - iii) to the extent that it was due to the failure of the approved participant or its client to take reasonable steps to mitigate the loss.
- e) No payment by the Bourse under this paragraph 4 shall be construed as an admission of liability by the Bourse.

- 3952 Requirements pertaining to the status of a restricted trading permit holder**
(01.05.89, 25.07.91, 01.08.95, 15.03.05, 30.03.10, abr. 00.00.00)
- 3953 Rights and Obligations of Restricted Trading Permit Holders**
(01.05.89, 15.03.05, abr. 00.00.00)
- 3954 Additional Rules**
(11.03.85, 01.05.89, 15.03.05, 30.03.10, abr. 00.00.00)
- 3955 Fees**
(11.03.85, 25.07.91, 15.03.05, abr. 00.00.00)
- 3956 Surrender of Restricted Trading Permits**
(11.03.85, 01.05.89, 25.07.91, 01.04.99, 15.03.05, abr. 00.00.00)
- 3957 Arbitration**
(11.03.85, 15.03.05, abr. 00.00.00)
- 3958 Revocation of Restricted Trading Permits**
(11.03.85, 01.05.89, 15.03.05, 30.03.10, abr. 00.00.00)
- 3959 Restricted Trading Permit - Option Category**
(01.05.89, 25.07.91, 02.04.93, 15.03.05, 30.03.10, abr. 00.00.00)
- 3960 Restricted Trading Permit - Financial Derivatives Category**
(01.05.89, 25.07.91, 04.05.95, 03.11.97, 15.03.05, 30.03.10, abr. 00.00.00)

4001 Information

(16.10.89, 11.03.92, 15.03.05, 02.09.11, 00.00.00)

Approved participants, their employees and approved persons must comply with the obligation to provide information as set forth in this Section I.

Upon the request of the Regulatory Division or of one of its representatives, these persons must provide forthwith all information related to their business, trades, positions or conduct as well as to the identity, business, trades or positions of any of their customers and employees and customers of persons for whom they provide account maintenance services. To this end, these persons must submit and give to the Regulatory Division access to any records, registers, data, data bases, files, documents, papers and information for examination, and allow the Regulatory Division or its representative to obtain copy thereof on demand.

For the purposes of any investigation or examination, the Regulatory Division or its representative may obtain such information from any source whatsoever, including any of the customers of any approved participants.

The Regulatory Division may at any time make available to any other exchange or securities commission or similar authority any report or information of the sort described in this article. For that purpose, the Regulatory Division may, on behalf of the Bourse, enter into agreements with any person or entity, in Québec or outside of Québec, for the sharing of information.

The obligation to inform extends to officers, partners, directors, employees and auditors of any approved participant and also entails the obligation to appear before the Bourse at the time and place indicated by the Regulatory Division.

Compliance with the provisions of this Section I shall not create any liability towards any other approved participant, employee of an approved participant, approved person or client.

4002 Notice of Non-Compliance

(11.03.85, 11.03.92, 15.03.05, 02.09.11; 16.07.12, 00.00.00)

1. Immediate notice must be given in writing to the Regulatory Division by an approved participant or approved person in the event that such person, or any other approved participant, employee or approved person fails to be able to continue to meet its obligations or becomes insolvent or commits an act of bankruptcy within the meaning of the Bankruptcy and Insolvency Act.
2. Notice must be given to the Regulatory Division by an approved participant or approved person using the prescribed form, within ten (10) business days of a finding, in the event that such person, or any other approved participant, employee or client authorized to use the order routing system of an approved participant pursuant to article 6366 B) or approved person fails to comply with the regulations of the Bourse.
3. Without limiting the above, approved participants must diligently conduct and complete all necessary audits and investigations, in compliance with their internal supervision policies and procedures, when they suspect an employee, an approved person or a client of having contravened the Rules of the Bourse pertaining to, notably:

- a) the obligation to trade in compliance with equitable principles;
 - b) the prohibition to use any manipulative or deceptive methods of trading;
 - c) the prohibition to enter orders or to execute trades in an irregular manner;
 - d) the prohibition of front running;
 - e) the obligation to execute clients' orders at the best possible price;
 - f) the obligation to ensure the priority of client's orders;
 - g) the obligation to execute on the Bourse's market all transactions on derivative instruments listed on the Bourse, subject to specific exceptions provided for in the Rules of the Bourse; and
 - h) any other obligation, prohibition or requirement that may be established by the Bourse from time to time.
4. Any verification or investigation made in accordance with this article, regardless of the conclusion, must be recorded in writing and adequately documented. Records so created must be kept for a period of at least seven (7) years as of their date of creation and must be made available to the Regulatory Division upon request.
 5. If upon completion of the verifications and investigations provided for in paragraph 3, an approved participant concludes to a possible violation of any of the obligations, prohibitions or requirements mentioned in said paragraph, it must forward the required information to the Regulatory Division of the Bourse, using the prescribed form no later than the tenth (10th) business day following the date on which it reached such conclusion.
 6. The obligations of an approved participant provided for in this article are in addition to the other obligations stipulated in the Rules, Policies and trading Procedures of the Bourse, notably with regards to supervision and, in any case, shall not prevent the Bourse from undertaking disciplinary measures against an approved participant or an approved person.

4003 Special Inspection or Investigation
(11.03.85, 11.03.92, 15.03.05, 00.00.00)

Without in any way limiting the powers conferred upon the staff of the Bourse by article 4001, the Special Committee or the Vice-President of the Regulatory Division of the Bourse may in their absolute discretion, at any time, direct a special examination or investigation to be made in respect of the conduct, the business or affairs of an approved participant or an approved person.

4005 Failure to Provide Information or to Appear
(11.03.85, 11.03.92, 15.03.05, 00.00.00)

Any approved participant or approved person who refuses or neglects to provide information in the manner prescribed in this Section I or who fails to attend a hearing after having been given notice thereof, may be suspended without any notice, hearing or formality by the Special Committee until the required information has been provided or an attendance made as set out in the summary proceedings provided for in articles 4301 and following.

4006 Costs and Expenses

(11.03.85, 11.03.92, 15.03.05, 02.09.11, 00.00.00)

The costs and expenses paid or incurred by the Regulatory Division in connection with any examination or investigation instituted pursuant to the provisions of articles 4001 or 4003 and all proceedings relating thereto or steps taken as a result thereof shall be a debt owed to the Bourse by the approved participant or approved person who must pay the amount thereof upon demand.

4101 Complaints

(11.03.85, 11.03.92, 15.03.05, 29.03.06, 00.00.00)

a) The Bourse, an approved participant or an approved person may, in accordance with the procedures provided in articles 4151 and following, file a complaint against an approved participant or an approved person, in respect of:

- i) a breach of the regulations of the Bourse;
- ii) any act, conduct, practice or proceeding unbecoming an approved participant of the Bourse or an approved person, inconsistent with just and equitable principles of trade, or detrimental to the reputation of the Bourse or to the interests or the welfare of the public or of the Bourse,

whether or not such act, conduct or proceeding is related to dealings or transactions on the Bourse.

b) The Bourse may also file a complaint of the type described in paragraph a) above against a former approved participant or approved person, provided an originating notice is served on such person within thirty six (36) months from the date upon which the person ceased to be an approved participant or an approved person.

This provision is in addition to the powers the Bourse may hold and choose to exercise pursuant to powers delegated by a securities commission.

c) Without in any way limiting the generality of the foregoing, the following actions of an approved participant or approved person shall be deemed an act, conduct, practice or proceeding covered by sub-paragraph a) ii) of the present article:

- i) misleading or attempting to mislead the Bourse on any material point;
- ii) breaching any statute or regulation related to the trading of securities or derivative instruments;
- iii) indiscriminate or improper solicitations of orders, either by telephone or otherwise;

- iv) using high pressure or other sales tactics of a character considered undesirable according to the standards of the industry;
 - v) using or knowingly participating in the use of any manipulative or deceptive methods of trading, including those set out in article 6306 of the Rules of the Bourse;
 - vi) breaching any provisions of the Code of Ethics and Conduct for Registered Representatives, included in the Conduct and Practices Handbook Course, published by the Canadian Securities Institute.
- d) The Disciplinary Committee or the Special Committee shall, in accordance with this Rule, decide whether an act, conduct, practice or proceeding is of the sort described in sub-paragraph a) ii) of the present article.

4105 Disciplinary Penalties

(11.03.85, 11.03.92, 18.10.00, 15.03.05, 02.09.11, 00.00.00)

In finding any approved participant or approved person guilty pursuant to a complaint therein made, or of some lesser and included offence, the Disciplinary Committee or the Special Committee may, with respect to each offence, impose any one or more of the following penalties or orders :

- a) a reprimand;
- b) a fine not exceeding \$ 1,000,000;
- c) the suspension or the revocation of the rights as an approved participant or approved person for such period and upon such conditions, including conditions of reinstatement, as the Committee may determine;
- d) the prohibition to obtain an approval for the time and upon such conditions determined by the Committee, including the conditions for the release of such a prohibition.
- e) the expulsion of the approved participant;
- f) the making of restitution to any person who has suffered a loss as a result of the acts or omissions of a person under the jurisdiction of the Exchange;
- g) the obligation to take one or more courses given by the CSI Global Education Inc. or any other course deemed appropriate;
- h) the reimbursement in whole or in part of the costs and expenses (including professional fees) paid or incurred by the Bourse in connection with the complaint and the matters out of which it arose including all investigations, hearings, appeals and other proceedings before or after the complaint.

These penalties and orders shall be in addition to such other action as the Bourse may take pursuant to any other provision of its regulations.

4151 Originating Notice

(11.03.85, 11.03.92, 15.03.05, 02.09.11, 00.00.00)

- a) The Bourse must serve an originating notice on any person who is directly concerned whenever, as a result of an investigation or otherwise, it:
 - i) decides to initiate disciplinary proceedings pursuant to articles 4101 and following;
 - ii) intends to deny granting an unconditional approval to a partnership or corporation as an approved participant or an unconditional approval of a person;
 - iii) proposes to revoke, suspend or amend any of the rights or privileges of an approved participant or of an approved person;
 - iv) proposes to exercise the powers delegated to it by a securities commission or other regulatory organization.

- b) The originating notice must contain:
 - i) a reference to the regulatory provisions governing the matter;
 - ii) a summary statement of the facts alleged and intended to be relied upon by the Regulatory Division and the conclusions drawn by the Regulatory Division based on the alleged facts;
 - iii) a statement of the intent of the Bourse to conduct a hearing of the matter on a date and at a place to be determined in the originating notice or, subsequently, in the notice of hearing;
 - iv) a reminder of the existence of articles 4201 and following;
 - v) a warning that failure to file a reply within the prescribed delay may result in foreclosure from producing any witness at the hearing.

- c) A copy of the originating notice, together with proof of service, shall be filed with the Vice-President, Legal Affairs (Derivatives).

4160 Decision

(11.03.85, 29.04.86, 11.03.92, 15.03.05, 02.09.11, 00.00.00)

- a) The decision of the Disciplinary Committee must be in writing and served on the person concerned.
- b) The Disciplinary Committee must give the reasons supporting its decision.

- c) A notice of the decision must be sent to the complainant, distributed to the approved participants of the Bourse, filed in the records of the Bourse and be made available to the public and the press.
- d) Notice of the decision must be given to such other persons designated by the Disciplinary Committee hearing the matter.
- e) If an offer of settlement is rejected pursuant to articles 4201 and following, the reasons underlying such a decision by the Disciplinary Committee shall not be made public, but shall be made available to the members of the Disciplinary Committee to whom another offer of settlement would be presented.

4207 Acceptance of an Offer of Settlement
(11.03.92, 15.03.05, 02.09.11, 00.00.00)

In the event an offer of settlement is accepted by the Disciplinary Committee of the Bourse or, in the cases provided for in article 4204, by the Vice-President, Regulatory Division:

- i) the matter becomes final and the settlement constitutes a decision;
- ii) there can be no appeal of the matter;
- iii) the disposition of the matter agreed upon in the settlement must be recorded in the permanent records of the Bourse; and
- iv) a notice of the decision must be sent to the complainant, distributed to the approved participants of the Bourse, filed in the records of the Bourse and made available to the public and the press.

4256 Stay of Execution
(11.03.92, 15.03.05, 00.00.00)

Unless otherwise ordered by the Special Committee, an appeal suspends the execution of the decision of the Disciplinary Committee or of the staff of the Bourse when such decision imposes a penalty other than those provided for under paragraphs c), d), e) and f) of article 4105.

However, the suspension of the rights of an approved participant or approved person, the prohibition to obtain an approval, the expulsion of an approved participant and the revocation of an approval of the Bourse is executory, notwithstanding appeal, unless otherwise ordered by the Special Committee.

4302 Conviction
(11.03.85, 11.03.92, 15.03.05, 00.00.00)

- a) If any approved participant or approved person is convicted of a crime or of an infraction in connection with trading in securities or futures contracts or of an offence under any statute or regulation applicable to securities or derivative instruments, or if any approved participant or approved person has their registration or license under any such statute or regulation suspended or revoked, the Special Committee may, without any notice, hearing or formality whatsoever, suspend the approved participant or approved person and withdraw the approval of such approved person pending the completion of all appeal proceedings relating to such conviction, suspension or revocation;
- b) if no appeal is launched within the prescribed delay from such conviction, suspension or revocation, or if such a conviction, suspension or revocation is made or upheld in appeal, the Special Committee may thereupon, without any notice, hearing or formality whatsoever, suspend or expel such approved participant and suspend or revoke the approval of such approved person.

4303 Expulsion or Suspension by Another Exchange
(11.03.85, 11.03.92, 15.03.05, 00.00.00)

If any approved participant or approved person is suspended, expelled or has their approval suspended, withdrawn or revoked by another exchange or self-regulatory organization, the Special Committee may suspend or expel such approved participant or suspend or revoke the approval of such approved person, provided that the Bourse shall forthwith issue a Notice of Hearing and convene a hearing within the following fifteen business (15) days.

4304 Failure to Provide Information or to Appear
(11.03.85, 11.03.92, 15.03.05, 02.09.11, 00.00.00)

If any approved participant, employee of an approved participant or approved person refuses or neglects to provide information or to appear in the manner prescribed by the regulations of the Bourse, the Special Committee may without any notice, hearing or formality whatsoever, suspend the approved participant or approved person until the information has been provided or the appearance has been made.

4305 Interim Orders for Unsatisfactory Financial Condition or Practices
(11.03.85, 14.08.90, 11.03.92, 15.03.05, 02.09.11, 00.00.00)

- a) Notwithstanding anything to the contrary contained in any other provision of the regulations of the Bourse, if following any inspection or investigation with respect to the business, affairs or conduct of an approved participant or approved person, whether made pursuant to the regulations of the Bourse, the applicable legislation or otherwise, or if, on the basis of any reliable information otherwise obtained by or given to the Regulatory Division, it is established that:
 - i) such approved participant is insolvent or does not have the risk adjusted capital required under the regulations of the Bourse;

- ii) the financial or general condition of such approved participant or approved person is such that it is or may become detrimental to the reputation of the Bourse or to the interests or welfare of the Bourse or the public;
- iii) the system of book or record keeping or accounting used by such approved participant is unsatisfactory; or
- iv) the methods or practices adopted by such approved participant or approved person in carrying on business may be detrimental to the reputation of the Bourse or to the interests or welfare of the Bourse or the public;

the Special Committee may impose without any notice, hearing or formality whatsoever, one or more of the interim orders described in paragraph b) hereunder.

b) The interim orders that may be imposed pursuant to paragraph a) are:

- i) the suspension of the approved participant or of any of the rights and privileges of the approved participant or approved person for a period and upon the terms and conditions, if any, determined by the Special Committee;
- ii) the suspension or amendment of the terms and conditions of a previously granted approval;
- iii) the imposition of any terms and conditions that must be satisfied by a person to continue as an approved participant or approved person; or
- iv) the imposition of any other terms, conditions or instructions deemed appropriate in the circumstances including, without limitation:
 - 1. restricting one or more sectors of the approved participant's operations;
 - 2. requiring the attendance at the approved participant's premises, for the surveillance of its trading activities on the derivatives instruments listed on the Bourse, of employees or representatives of the Bourse;
 - 3. requiring the mailing of notices to clients in terms specified by the Regulatory Division.

c) If interim orders are imposed pursuant to the above paragraph b), the Bourse must issue a notice of hearing to be held within fifteen (15) business days following the Special Committee's decision unless the parties agree to an extension of the delay or to a waiver of the hearing.

d) Interim orders imposed by the Special Committee remain in force until the hearing is held, at which time the orders may be confirmed, set aside or modified.

4306 Defaulters

(11.03.85, 11.03.92, 13.04.99, 15.03.05, 02.09.11, 00.00.00)

- a) An approved participant or an approved person may be declared a defaulter by the Special Committee without any notice, hearing or formality whatsoever in any of the following cases:
 - i) the approved participant or the approved person fails to pay on demand any assessment, fee or charge which has become due to the Bourse pursuant to the regulations of the Bourse or its list of fees, or any other indebtedness to the Bourse, such as a fine, or the costs of a hearing, investigation or surveillance operation;
 - ii) the approved participant or the approved person fails to meet or admits or discloses his inability to meet his liabilities or obligations to the Bourse, another approved participant, or to the public;
- b) An approved participant or an approved person who is declared a defaulter by the Special Committee who makes an assignment of his property under the applicable legislation or against whom a receiving order is issued under this same law shall automatically be suspended.
- c) If the cause of such default is not corrected to the satisfaction of the Special Committee within fourteen (14) business days after a person was declared a defaulter, or such other period as the Special Committee may decide, the approved participant may be expelled, or the approval of the approved person may be suspended or revoked by the Special Committee without any notice, hearing or formality whatsoever.
- d) No approved participant shall do business for the account of a defaulter without the written consent of the Special Committee.

6305 Front Running
(10.10.91, 00.00.00)

No approved participant, person employed by or acting on behalf of an approved participant or person associated with an approved participant shall:

- a) take advantage of a customer's order by trading ahead of it;
- b) engage in transactions based in whole or in part on non-public information concerning pending transactions in securities, options or future contracts, which are likely to affect the market prices of any other securities, options or future contracts, unless such transactions are made solely for the purpose of providing a benefit to the client who is proposing or engaged in the transactions.

6306 Manipulative or Deceptive Methods of Trading
(10.10.91, 31.01.05, 00.00.00)

No approved participant, person employed by or acting on behalf of an approved participant or person associated with an approved participant may use or knowingly participate in the use of any manipulative or deceptive methods of trading in connection with the purchase or sale of any securities or derivative instruments listed on the Bourse.

Without in any way limiting the generality of the foregoing, the following shall be deemed manipulative or deceptive methods of trading:

- a) effecting a transaction or a series of transactions or posting purchase or sale orders on securities or on derivative instruments traded on the Bourse alone or with one or more persons, intentionally or repeatedly and with the objective of unfairly influencing the market price of securities or derivatives instruments to make a profit from such action;
- b) creating a false or misleading appearance of trading in such securities or derivative instruments;
- c) entering orders or effecting transactions whose execution does not result in any change in the beneficial or economic ownership of the relevant securities or derivative instruments;
- d) effecting a transaction which creates an artificial price or new highs or new lows in such securities or derivative instruments during the same trading session without being justified by market conditions;
- e) entering orders or effecting a transaction with the purpose of transferring funds, assets or liabilities in contravention of legal or regulatory requirements.

6366 Access to Electronic Trading
(25.09.00, 24.09.01, 19.03.02, 03.11.04, 01.03.14, 00.00.00)

A) Only approved participants of the Bourse, through their respective clearing approved participants, will have access to the electronic trading for derivatives instruments traded on the Bourse and this, at the following conditions:

- a) certify to the Bourse that only their designated personnel approved by the Bourse and who has received the required training has access to the said system;

- b) certify to the Bourse that only the designated personnel approved by a recognized exchange or association as described in article 7452 6) b) ii) of the Rules of the Bourse and who has received the required training has access to the said system;
- c) put in place an internal security procedure for access to the electronic trading system; and
- d) obtain the prior approval of the Bourse.

Each approved participant is entirely and exclusively responsible for any unauthorized access to the said system.

The approved participant must give notice to the Bourse of the termination of employment of its designated personnel approved by the Bourse and this, within a delay of ten (10) business days from the date of termination of employment.

B) Approved participants can authorize clients to transmit electronically orders to the Bourse through the systems of the approved participant, using the approved participant's identifier. In order to do so, the following conditions must be complied with:

1. Definitions

- a) For the purposes of this article, a client is defined:
 - i) as a person, other than those registered as an investment dealer with a securities regulatory authority or approved as a foreign approved participant by the Bourse, having entered into a written agreement with an approved participant which permits to transmit electronically orders to the Bourse through the systems of an approved participant, using the approved participant's identifier;
 - ii) as an investment dealer registered with a securities regulatory authority, or a foreign approved participant of the Bourse, having entered into a written agreement with an approved participant which permits the investment dealer or foreign approved participant to transmit electronically orders to the Bourse, through the systems of the approved participant, using the approved participant's identifier.
- b) For the purpose of this article, the terms "Electronic Trading Rules" refer to *Regulation 23-103 respecting Electronic Trading* (CQLR c V-1.1, r. 7.1), as well as any applicable policy statement or notice.
- c) For the purpose of this article, the terms "Bourse and regulatory requirements" refer to the rules, policies and operational procedures of the Bourse, or to any condition imposed by the Bourse for the purpose of the electronic access provided to a client by an approved participant, as well as to applicable securities or derivatives legislation.

2. Conditions

2.1 An approved participant must:

- a) establish, maintain and apply standards that are reasonably designed to manage, in accordance with prudent business practices, the approved participant's risks associated with providing an electronic access to a client, pursuant to paragraph B), including

those set out in the Electronic Trading Rules and, as the case may be, those associated with market maker assignments granted to the client;

- b) assess and document that a client meets the standards established by the approved participant, under subparagraph a).

2.2 The standards thus established by an approved participant, under subsection 2.1, shall include that a client must not have an electronic access to the Bourse, pursuant to paragraph B), unless:

- a) it has sufficient resources to meet any financial obligations that may result from the use of such electronic access by that client;
- b) it has reasonable arrangements in place to ensure that all individuals using such electronic access, on behalf of the client, have reasonable knowledge of and proficiency in the use of the order entry system that facilitates such electronic access;
- c) it has reasonable knowledge of and the ability to comply with all applicable Bourse and regulatory requirements;
- d) it has reasonable arrangements in place to monitor the entry of orders through such electronic access.

2.3 An approved participant must assess, confirm and document, at least annually, that a client continues to meet the standards established by the approved participant pursuant to subsection 2.1.

2.4 An approved participant must not allow any order to be transmitted to the Bourse, pursuant to paragraph B), unless:

- a) the approved participant is maintaining and applying the standards it has established under subsections 2.1, 2.2 and 2.3;
- b) the approved participant is satisfied that the client meets the standards established by the approved participant under subsections 2.1, 2.2 and 2.3;
- c) the approved participant is satisfied that the client is in compliance with the written agreement entered into with the approved participant, under subsection 2.5;
- d) the order is subject to all applicable requirements pursuant to the Electronic Trading Rules, including those pertaining to the risk management and supervisory controls, policies and procedures of the approved participant.

2.5 An approved participant must not provide to a client an electronic access to the Bourse, pursuant to paragraph B), unless the client has entered into a written agreement with the approved participant, which provides that:

- a) the client's trading activity shall comply with all applicable Bourse and regulatory requirements;
- b) the client's trading activity shall comply with the product limits and credit or other financial limits specified by the approved participant;

- c) the client shall take all reasonable steps to prevent unauthorized access to the technology that facilitates such electronic access;
 - d) the client shall not permit any person to use such electronic access provided by the approved participant, other than those authorized by a client as defined in subparagraph 1 a) (ii) or, in the case of a client as defined in subparagraph 1) a) (i), other than those authorized and named by the client under the provision of the agreement referred to in subparagraph h);
 - e) the client shall fully cooperate with the approved participant in connection with any investigation or proceeding by the Bourse with respect to trading conducted pursuant to such electronic access, including, upon request by the approved participant, providing access to the Bourse to information that is necessary for the purposes of the investigation or proceeding;
 - f) the client shall immediately inform the approved participant, if it fails or expects not to meet the standards set by the approved participant;
 - g) when trading for the accounts of another person, under subsection 2.11, the client shall ensure that the orders of the other person are transmitted through the systems of the client and shall be subject to reasonable risk management and supervisory controls, policies and procedures established and maintained by the client;
 - h) a client, as defined under subparagraph 1 a) (i), shall immediately provide to the approved participant, in writing, the names of all personnel acting on the client's behalf that it has authorized to enter an order, using the electronic access to the Bourse pursuant to paragraph B), as well as any changes thereof;
 - i) the approved participant shall have the authority, without prior notice, to reject any order, to vary or correct any order to comply with Bourse and regulatory requirements, to cancel any order entered on the Bourse and to discontinue accepting orders from the client.
- 2.6 An approved participant must not allow a client to have, or continue to have, an electronic access to the Bourse pursuant to paragraph B), unless it is satisfied that the client has reasonable knowledge of the applicable Bourse and regulatory requirements, and of the standards established by the approved participant under subsections 2.1, 2.2 and 2.3.
- 2.7 An approved participant must ensure that a client receives any relevant amendments to the applicable Bourse and regulatory requirements, or changes or updates to the standards established by the approved participant under subsections 2.1, 2.2 and 2.3.
- 2.8 Upon providing to a client an electronic access to the Bourse, pursuant to paragraph B), an approved participant must ensure the client is assigned a client identifier in the form and manner required by the Bourse.
- 2.9 An approved participant must ensure that an order entered by a client, using such an electronic access to the Bourse, includes the appropriate client identifier.
- 2.10 An approved participant must promptly inform the Bourse if a person ceases to be a client pursuant to paragraph B).

2.11 An approved participant must not provide an electronic access to the Bourse, pursuant to paragraph B), to a client as defined in subparagraph 1 a) i) that is trading for the account of another person, unless the client is:

- a) registered or exempted from registration as an adviser under securities legislation; or
- b) a person that
 - i) carries on business in a foreign jurisdiction;
 - ii) under the laws of the foreign jurisdiction, may trade for the account of another person, using such an electronic access; and
 - iii) is regulated in the foreign jurisdiction by a signatory to the International Organization of Securities Commissions' Multilateral Memorandum of Understanding.

2.12 If a client referred to in section 2.11 is using such an electronic access to the Bourse to trade for the account of another person, it must ensure that the orders of the other person are initially transmitted through the systems of the client.

2.13 An approved participant must ensure that when a client is trading for the account of another person, using an electronic access to the Bourse pursuant to paragraph B), the orders of the other person are subject to reasonable risk management and supervisory controls, policies and procedures established and maintained by the client.

3. Responsibility

An approved participant who provides an electronic access to the Bourse, pursuant to paragraph B), remains responsible for compliance with all applicable Bourse and regulatory requirements with respect to the entry and execution of orders from its clients.

4. Miscellaneous

4.1 An approved participant must immediately report to the Bourse, in writing, that it has terminated the electronic access of a client pursuant to paragraph B).

4.2 An approved participant must immediately report to the Bourse, in writing, if it is aware of or has reason to believe that a client has, or may have, breached a material provision of any standard established by the approved participant, or of the written agreement between the approved participant and the client, pursuant to section 2.

6376 Order Identification

(25.09.00, 24.09.01, 29.10.01, 01.04.04, 00.00.00)

Approved participants must ensure the proper identification of orders when entered into the trading system in order to ensure compliance with the provisions of article 6374 regarding management of priorities.

- a) "Order for the account of a customer" means an order for a security or a derivative instrument entered for the account of a customer of any approved participant or of a customer of a related firm of an approved participant, but does not include an order entered for an account in which an approved

participant, a related firm of an approved participant or a person approved by the Bourse has a direct or indirect interest, other than an interest in a commission charged;

- b) “Order for the account of a professional” means an order for a security or a derivative instrument for an account in which a director, officer, partner, employee or agent of an approved participant or of a related firm of the approved participant or a person approved by the Bourse has a direct or indirect interest, other than an interest in a commission charged. The Bourse may designate any order as being an order for the account of a professional if, in its opinion, circumstances justify it;
- c) “Order for the account of the firm” means an order for a security or a derivative instrument for an account in which the approved participant or a related firm of the approved participant has a direct or indirect interest, other than an interest in a commission charged;
- d) “Order for an insider or significant shareholder” means an order for a security or a derivative instrument for the account of a client, a professional or a firm who is an insider and/or significant shareholder of the issuer of the underlying security which is the subject of the order. If such client, professional or firm is both an insider and a significant shareholder, the significant shareholder designation must be used.

For the purposes of this article:

“insider” means a person who is an insider, pursuant to applicable securities legislation, of the issuer of the security underlying the security or the derivative instrument traded;

“significant shareholder” means any person holding separately, or jointly with other persons, more than 20 per cent of the outstanding voting securities of the issuer whose security is underlying the security or the derivative instrument traded.

“related firm” has the meaning given to that term in the definitions in article 1102 of the Rules of the Bourse.

6378 Receipt of Orders

(25.09.00, 24.09.01, 29.10.01, 00.00.00)

Any order received or initiated by an approved participant must be time-stamped in accordance with articles 6373 and 6377 of the Rules.

6387 Malfunction of the Trading System

(25.09.00, 24.09.01, 29.10.01, 00.00.00)

Should the electronic trading system malfunction, a Market Supervisor of the Bourse can interrupt access to the system.

The orders recorded before the malfunction can be withdrawn from the system by the approved participant by preparing cancellation instructions for the orders. Upon the system functioning again, there will be a pre-opening session where the cancellation instructions for the orders will be executed.

6604 Adjustment to Terms of Contract

(10.11.92, 07.09.99, 28.01.02, 00.00.00)

The terms of a contract are subject to adjustment in accordance with the Rules and Policies of the Bourse, or with General Conditions of the Clearing Corporation. When adjustments are made, a notice thereof shall be promptly published by the Bourse.

6636 Fast Market

(10.11.92, 07.09.99, 11.02.00, abr. 00.00.00)

6651 Position Limits for options

(06.08.86, 19.05.87, 08.09.89, 06.08.90, 20.03.91, 10.11.92, 07.04.94, 08.07.99, 07.09.99, 11.02.00, 28.01.02, 26.09.05, 20.05.10, 25.06.12, 12.04.13, 04.06.15, 00.00.00)

- A) Except as provided in paragraph D) of this article, no approved participant shall make for any account in which it has an interest, or for the account of any client, an options transaction if the approved participant has reason to believe that as a result of such transaction the approved participant or its client, would, acting alone or in concert with others, directly or indirectly, hold, control or be obligated with respect to an options position on the same side of the market relating to the same underlying interest (whether long or short) in excess of the options position limits established by the Bourse.
- B) Except otherwise indicated, the applicable position limits for options are as follows:
1. Options on stocks, exchange-traded funds or income trust units
 - a) 25,000 contracts where the underlying security does not meet the requirements set out in sub-paragraphs B) 1. b) and B) 1. c) of the present article;
 - b) 50,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 20 million shares or units, or the most recent interlisted six-month trading volume of transactions totals at least 15 million shares or units of the underlying interest and at least 40 million shares or units of this underlying interest are currently outstanding;
 - c) 75,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 40 million shares or units, or the most recent interlisted six-month trading volume on the underlying interest totals at least 30 million shares or units of the underlying interest and at least 120 million shares or units of this underlying interest are currently outstanding;
 - d) 200,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 80 million shares or units, or the most recent interlisted six-month trading volume on the underlying interest totals at least 60 million shares or units of the underlying interest and at least 240 million shares or units of this underlying interest are currently outstanding;
 - e) 250,000 contracts, where either the most recent interlisted six-month trading volume of transactions on the underlying stock, exchange-traded fund or income trust unit totals at least 100 million shares or units of the underlying interest or the most recent interlisted six-month trading volume on the underlying interest totals at least 75 million shares or units of the

underlying interest and at least 300 million shares or units of this underlying interest are currently outstanding;

f) 300,000 contracts for options on the following exchange-traded funds:

- units of the iShares S&P/TSX 60 Index Fund (XIU).

2. Debt options

8,000 contracts.

3. Index options

500,000 contracts.

4. Sector index options

40,000 contracts.

5. Options on futures

The number of contracts established as the position limits for the underlying futures contract.

For the purpose of this article, options contract positions are aggregated with the underlying futures contract positions. For aggregation purposes, the futures equivalent of one in-the-money option contract is one futures contract and the futures equivalent of one at-the-money or out-of-the-money option contract is half a futures contract.

6. Sponsored options

The position limits described above apply to sponsored options. However, these position limits must be adjusted by using an equivalent unit of trading.

When the underlying interest is traded on a market other than the Bourse, the position limits of this market apply to sponsored options by using an equivalent unit of trading.

7. Currency options

40,000 contracts when the trading unit is 10,000 units of foreign currency. The limit will be adjusted to obtain the same notional amount if the trading unit is amended or if the Bourse introduces new trading units.

C) For the purpose of this article:

1. calls written, puts held and short underlying interest are on the same side of the market and puts written, calls held and long underlying interest are on the same side of the market;

2. the Bourse may, by notice, change the position limits. A change in the position limit will be effective on the date set by the Bourse and reasonable notice shall be given of each new position limit.

D) Conversions, reverse conversions, long and short hedges

1. For the purposes of this article the following defined hedges are approved by the Exchange:
 - a) conversion: where an opening long put transaction in any option is entirely offset by an opening short call transaction having the same expiry month and strike price in the same option class, either of which option transaction is effectively hedged by a long position in the underlying interest of the option;
 - b) reverse conversion: where an opening short put transaction in any option is entirely offset by an opening long call transaction having the same expiry month and strike price in the same option class, either of which option transaction is effectively hedged by a short position in the underlying interest of the option;
 - c) short hedge: where an opening long call transaction or an opening short put transaction in any option is entirely offset by a short position in the underlying interest of the option;
 - d) long hedge: where an opening short call transaction or an opening long put transaction in any option is entirely offset by a long position in the underlying interest of the option.
2. In addition to the options position limits set out in paragraph B), any one account may hold an amount not exceeding the applicable paragraph B) limit of any combination of the approved hedge positions defined in sub-paragraphs D) 1. a) to D) 1. d), inclusive.
3. For all position limits set out in this article, in the case of conversion and reverse conversion as defined in paragraph D) 1. a) and b), such limits shall apply as if calls written and puts held, or puts written and calls held, as the case may be, were not on the same side of the market.

E) Exemption

As described in Policy C-1, an approved participant or a client may file, in the form prescribed, an application with the Bourse to obtain on behalf of a bona fide hedger or for risk management purposes an exemption from the position limits prescribed by the Bourse. The application must be filed on the appropriate form, no later than the next business day after the limit has been exceeded. If the application is rejected, the member shall reduce the position below the prescribed limit within the period set by the Exchange. The Exchange may modify any exemption which has been previously granted.

6652 Exercise Limits
(10.11.92)

Except with the written permission of the Exchange, no approved participant shall exercise, for any account in which he has an interest or for the account of any client, a long position in any option where such approved participant or client, acting alone or in concert with others, directly or indirectly, has or will have exercised, within any five (5) consecutive business days an aggregate long position exceeding the number of contracts established as position limits by article 6651.

7007 Restricted Trading Permit Holders
(01.05.89, 01.04.93, 13.09.05, 14.01.16, abr. 00.00.00)

7008 Joint Account
(01.04.93, 13.09.05, arb. 00.00.00)

7153 Trading activity statement - Restricted Trading Permit Holders
(04.05.98, 13.09.05, 22.03.10, abr. 00.00.00)

7450 Business Conduct
(01.04.93, 13.09.05, 22.03.10, 00.00.00)

All approved participants must at all times adhere to the principles of good business practice in the conduct of their affairs.

The business of approved participants or approved persons and their dealings amongst themselves and with the public must at all times comply with the standards set forth in the Bourse regulations.

9001 Definitions

(01.01.05, 01.02.07, 30.11.15, 14.01.16, 00.00.00)

For the purpose of the present Rule:

“**approved participant account**” means all non-client accounts including firm accounts, market maker accounts, and sponsor accounts;

“**client account**” means an account for a client of an approved participant, but does not include account in which a member of a self-regulatory organization, or a related firm, approved person or employee of such an approved participant, member or related firm, as the case may be, has a direct or indirect interest, other than an interest in a commission charged;

“**escrow receipt**” means:

- i) in the case of an equity, exchange-traded fund or income trust unit or bond option, a document issued by a financial institution approved by the Canadian Derivatives Clearing Corporation certifying that a security is held and will be delivered upon exercise by such financial institution in respect of a specified option of a particular client of an approved participant; or
- ii) in the case of an OCC option, a document issued by a depository approved by the clearing corporation, after executing and delivering agreements required by The Options Clearing Corporation, certifying that a security is held and will be delivered upon exercise by such financial institution in respect of a specified OCC option of a particular client of an approved participant;

“**firm account**” means an account established by an approved participant, which is confined to positions carried by the approved participant on its own behalf;

“**floating margin rate**” means:

- i) the last calculated regulatory margin interval, effective for the regular reset period or until a violation occurs, such rate to be reset on the regular reset date, to the calculated regulatory margin interval determined at that date; or
- ii) where a violation has occurred, the last calculated regulatory margin interval determined at the date of the violation, effective for a minimum of twenty trading days, such rate to be reset at the close of the twentieth trading day, to the calculated regulatory margin interval determined at that date, where a reset results in a lower margin rate.

For the purposes of this definition, the term “regular reset date” is the date subsequent to the last reset date where the maximum number of trading days in the regular reset period has passed.

For the purposes of this definition, the term “regular reset period” is the normal period between margin rate resets. This period must be determined by the Canadian self-regulatory organizations with member regulation responsibilities and must not be no longer than sixty trading days.

For the purpose of this definition, the term “regulatory margin interval” means the margin interval calculated by the Canadian Derivatives Clearing Corporation.

For the purpose of this definition, the term "violation" means the circumstance where the maximum 1 or 2 day percentage change in the daily closing prices is greater than the margin rate;

"**index**" means an equity index where:

- i) the basket of equity securities underlying the index is comprised of eight or more securities;
- ii) the weight of the single largest security position in the basket of equity securities underlying the index represents no more than 35% of the overall market value of the basket;
- iii) the average market capitalization for each security position in the basket of equity securities underlying the index is at least \$50 million; and
- iv) in the case of foreign equity indices, the index is both listed and traded on an exchange that meets the criteria for being considered a recognized exchange as set out in the definition of "regulated entities" included in the General Notes and Definitions of the "Joint Regulatory Financial Questionnaire and Report" form of the Investment Industry Regulatory Organization of Canada;

"**market maker account**" means a firm account of an approved participant that is confined to transactions initiated by the approved participant acting as a market maker;

"**non-client account**" means an account established with an approved participant by another member of a self-regulatory organization, a related firm, an approved person or employee of an approved participant or of a member of self-regulatory organization or of a related firm, as the case may be, in which the approved participant does not have an interest, direct or indirect, other than an interest in fees or commissions charged;

"**OCC option**" means a call option or a put option issued by The Options Clearing Corporation;

"**tracking error margin rate**" means the last calculated regulatory margin interval for the tracking error resulting from a particular offset strategy. The meaning of the term "regulatory margin interval" and the margin rate policy are the same as for the floating margin rate.

For the purpose of the present Rule:

9221 Exchange Traded Futures Contracts – General
(01.01.05, 23.01.06, 00.00.00)

- a) With respect to an account of an approved participant or market maker, the Bourse may establish certain charges against the capital of the approved participant carrying the account, which charges may be less onerous than margin requirements applicable to clients but for which the approved participant must maintain adequate capital resources at all times;
- b) positions of approved participants and customers must be marked to market daily and the required capital must be determined by using the greatest of:
 - i) the rate required by the futures contract exchange on which the contract is entered into or its clearing corporation; or

- ii) the rate required by the broker through which the approved participant ensures the clearing of the futures contract;
- c) in the case of a futures contract exchange or its clearing corporation that prescribes margin requirements based on initial and maintenance rates, initial capital is required at the time the contract is entered into and the amount of such capital must not be less than the prescribed initial rate. Subsequently, the approved participant must maintain, for each position held, a capital amount equivalent to the prescribed maintenance rate;
- d) capital requirements established by the Bourse may be made applicable to one or more rather than all approved participants if deemed necessary by the Bourse;
- e) specific capital requirements may be applicable on spread positions when an approved participant account holds such positions. Every approved participant must clearly identify such spread positions in its records relating to margin calculations;
- f) from time to time the Bourse may impose special capital requirements with respect to particular futures contracts or particular positions in futures contracts.

9401 Exchange Traded Bond Options – General
(01.01.05, 01.02.07, 14.01.16, 00.00.00)

- a) With respect to an approved participant account or market maker account, the Bourse has established certain charges against capital;
- b) in the treatment of spreads, the long position may expire before the short position;
- c) for any short position carried for a client or non-client account where the account has not provided required margin, any shortfall will be charged against the approved participant's capital;
- d) where an approved participant account holds both CDCC bond options and OCC bond options that have the same underlying interest, the OCC bond options may be considered to be bond options for the purposes of the calculation of the capital requirements for the account under the provisions of this section;
- e) from time to time the Bourse may impose special capital requirements with respect to particular bond options or particular positions in bond options;
- f) in the pairing described in articles 9405, 9406 and 9424, bond options of different classes for which the underlying bonds have the same margin rate may be paired together provided that:
 - i) the exercise price of the bond option for which the market value of the underlying bond is the lowest must be increased by the difference between the market value of the underlying bonds; and

- ii) to the capital required pursuant to articles 9405, 9406 and 9424 must be added an amount equal to the margin that would be required on the net bond position which would result if both bond options were exercised.

9421 Exchange Traded Futures Contracts – General

(01.01.05, 23.01.06, 14.01.16, 00.00.00)

- a) With respect to an account of an approved participant or market maker, the Bourse has established certain charges against the capital of the approved participant carrying the account, which charges may be less onerous than margin requirements applicable to clients but for which the approved participant must maintain adequate capital resources at all times;
- b) specific capital requirements may be applicable on spread positions when an approved participant account holds such positions. Every approved participant must clearly identify such spread positions in its records relating to margin calculations;
- c) from time to time the Bourse may impose special capital requirements with respect to particular futures contracts or particular positions in futures contracts.