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		<input type="checkbox"/>	MCeX

CIRCULAR
June 16, 2011

REQUEST FOR COMMENTS

UPDATING OF RULE FOUR OF THE BOURSE – INVESTIGATIONS, DISCIPLINE AND APPEALS

UPDATING OF THE RULES REGARDING THE SPECIAL COMMITTEE – REGULATORY DIVISION

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved the updating of Rule Four and the updating of the Rules regarding the Special Committee – Regulatory Division of the Rules of the Bourse, which deal with the integration of Bourse de Montréal Inc. into TMX Group in 2008. The purpose of these amendments is therefore to reflect certain organizational changes that took place at the Bourse.

Comments on the proposed updating of Rule Four and of the updating of the Rules regarding the Special Committee – Regulatory Division of the Rules of the Bourse must be submitted within 30 days following the date of publication of the present notice, at the latest on July 18, 2011. Please submit your comments to:

Mr. François Gilbert
Vice-President, Legal Affairs, Derivatives
Bourse de Montréal Inc.
Tour de la Bourse
P.O. Box 61, 800 Victoria Square
Montréal, Quebec H4Z 1A9
E-mail: legal@m-x.ca

A copy of these comments shall also be forwarded to the Autorité to:

Ms. Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Quebec) H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca

Circular no.: 107-2011

Appendices

For your information, you will find in appendices an analysis document of the proposed rule amendments as well as the proposed regulatory text. The implementation date of the proposed amendments will be determined by the Bourse, in accordance with the self-certification process as established in the Derivatives Act (2008, c.24).

Process for Changes to the Rules

Bourse de Montréal Inc. is authorized to carry on business as an exchange and is recognized as a self-regulatory organization (SRO) by the Autorité des marchés financiers (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 its Rules. The Rules of the Bourse are submitted to the Autorité in accordance to the self-certification process as established in the Derivatives Act (2008, c.24).

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.



UPDATING OF RULE FOUR OF THE BOURSE – INVESTIGATIONS, DISCIPLINE AND APPEALS

UPDATING OF THE RULES REGARDING THE SPECIAL COMMITTEE – REGULATORY DIVISION

I SUMMARY

Following the integration of Bourse de Montréal Inc. (the Bourse) into TMX Group in 2008, it has become necessary to make certain amendments to the Rules of the Bourse to reflect certain organizational changes that took place at the Bourse.

Furthermore, the Bourse wishes to amend Rule Four as well as the Rules regarding the Special Committee – Regulatory Division, in order for offers of settlement presented by approved participants, approved persons or restricted trading permit holders to be submitted to the Disciplinary Committee for approval.

Finally, the Bourse wishes to update Rule Four and thus, proceed to certain abrogations and amendments that have become necessary, given the recent amendments to Rule Three — Approved Participants and the fact that the Bourse no longer carries on members regulation activities since January 1, 2005.

II ANALYSIS

A) The Context

Since the integration of the Bourse into TMX Group in 2008, the Bourse proposes that the reference to the position of Secretary of the Bourse

be replaced in Rule Four by that of the Vice-President, Legal Affairs, Derivatives.

The Bourse also proposes to amend Rule Four in order for offers of settlement presented by any approved participant, approved person or restricted trading permit holder, following an originating notice, to be submitted to the Disciplinary Committee for approval.

The current provisions of Rule Four and of the Rules Regarding the Special Committee – Regulatory Division stipulate that such a settlement offer must be approved by the Special Committee – Regulatory Division. In certain circumstances provided for in article 4204 or Rule Four, a settlement offer may also be accepted by an authorized officer of the Bourse.

Members of the Special Committee – Regulatory Division have recently expressed the will that these offers of settlement be instead submitted to the Disciplinary Committee of the Bourse. In doing so, the Disciplinary Committee, which is already responsible for hearing complaints of a disciplinary nature under the provisions of article 4102 of Rule Four, could approve or dismiss offers of settlement after receiving pertinent facts and evaluating the relevance of the proposed sanctions in the given circumstances. The Special Committee would retain its exclusive jurisdiction in the case of appeals, in accordance with article 4251 of Rule Four.

The Bourse also notes that Rule 20 — Corporation Hearing Processes of the Investment Industry Regulatory Organization of Canada (IIROC) provides for a similar process, where a hearing panel may hold disciplinary hearings as well as hearings pertaining to settlements negotiated with an approved person or a member firm.

The Bourse also proposes to review the entire provisions of Rule Four, in order to amend or abrogate articles which have become obsolete, especially since the Bourse no longer carries on members regulation activities. Indeed, during the 2004 summer, the Bourse took the decision, for what regards regulatory matters, to concentrate mainly on the regulation and surveillance of trading activities on its derivative instruments

market and to withdraw from the member regulation sector. This decision was mainly justified by the fact that in reason of its specialization in the financial derivative instruments market, the member regulation activities carried on by the Bourse were no longer significantly related with the specialization or the Bourse.

Discussions were therefore initiated with the IIROC¹ in order to transfer to it all member regulation activities of the Bourse, as well as the responsibilities related to the approval of persons. Following these discussions and the drafting of an agreement between the parties, the proposed transfer was submitted to the Autorité des marchés financiers (AMF) in December 2004 for approval. This approval was granted by the AMF at the end of December 2004² and the transfer of all the concerned activities and responsibilities took place on January 1, 2005. The Bourse then proceeded to review its Rules and Policies in order to withdraw all provisions for which it is no longer responsible³.

Finally, the Bourse wishes to amend certain articles of Rule Four in order to specify, in some cases, that the Regulatory Division is specifically responsible for the listed activities and duties.

The following analysis focuses mainly on the material additions, deletions and amendments that are made to Rule Four and the Rules regarding the Special Committee – Regulatory Division of the Bourse. Housekeeping amendments are not discussed in detail, unless the context requires further explanation.

¹ Further to the announcement with Market Regulation Services Inc. (RS) on June 1, 2008, the Investment Dealers Association (IDA) changed its name to « Investment Industry Regulatory Organization of Canada » (IIROC).

² See Decision no 2004-PDG-0223 published in the weekly Bulletin of the Autorité des marchés financiers on January 7, 2005 (vol. 2, no. 1).

³ The Bourse updated Rule Three — Approved Participants for the same reasons. The current version of this Rule became effective on March 30, 2010 (see circular no. 032-2010).

B) Abrogated Articles

Article 4307 — Closing Out Contracts Against Defaulters and Bankrupts

The Bourse proposes to abrogate this article entirely, since the Rules of the Canadian Derivatives Clearing Corporation (CDCC) already contains similar provisions applicable to its members.

Rule Three — Approved participants already provides that in order to be an approved participant of the Bourse, Canadian or foreign, one must be a member of the CDCC or have executed a clearing agreement with such member. In so doing, all transactions executed on the Bourse and cleared by a member of the CDCC shall be subject to its Rules. As for transactions not executed on its market, the Bourse does not consider relevant to keep in its Rules provisions which could not be applied.

Article 4352 — Responsibility of Partners, Directors and Officers of Approved Participant

It is proposed to abrogate this article entirely because, since the Bourse no longer carries on members regulation activities and following the updating of Rule Three — Approved Participants, the partners, directors or officers of an approved participant no longer need to be systematically approved by the Bourse. These persons are no longer under the jurisdiction of the Bourse and thus, no longer subject to the disciplinary penalties of the Bourse, unless they are “approved persons” as per Rule Three.

C) Modified Articles

Rule Four — Investigations, Discipline and Appeals

Article 4001 — Information

It is proposed to replace all references to the Bourse by “Regulatory Division”. As the Regulatory Division is exclusively responsible for the functions and activities listed in Rule Four, as per the decision No. 2008-PDG-0102 rendered by

the AMF in 2008 and the Rules Regarding the Regulatory Division. The proposed modifications therefore aim to adequately reflect this situation.

Article 4002 — Notice of Non-Compliance

For the same reasons as cited in the amendments to article 4001, it is proposed to replace the word “Bourse” by “Regulatory Division” in the first paragraph of article 4002.

The Bourse also wishes to amend paragraph a) of this article, which currently stipulates that an approved participant, approved person or restricted trading permit holder must immediately provide a written notice should it or another approved participant, employee, approved person or restricted trading permit holder fail to comply with Bourse’s regulations.

Given the volume of contracts negotiated on the Bourse by clients authorized to use the order routing system of an approved participant, pursuant to paragraph b) or article 6366 or Rule Six — Negotiation, it is proposed to add to this enumeration such clients since they are subject to supervision requirements as per article 6366.

Article 4006 — Costs and Expenses

As mentioned for article 4001, the Bourse proposes to refer to costs and expenses paid or undertaken by the Regulatory Division rather than by the Bourse, in article 4006.

Article 4007 — Information to other organizations

The Bourse proposes to amend the second paragraph of this article in order to extend its application to recognized organizations with which the Bourse has concluded an information sharing agreement, whether or not an approved participant of the Bourse is subject to the jurisdiction of this organization. This amendment also ties into the current article 4001 which provides, in its fourth paragraph, the possibility for the Bourse to conclude such an agreement.

Article 4102 — Disciplinary Committee

In order to take into account the modifications proposed to section C of Rule Four pertaining to settlements, the Bourse wishes to amend paragraph a) of article 4102 to specify that the Disciplinary Committee is not only constituted for hearing complaints of a disciplinary nature, but also to accept or reject certain offers of settlement.

As for paragraph b) of this article, it is proposed to replace the reference made to the Secretary of the Bourse by that of the Vice-President, Legal Affairs, Derivatives.

Article 4106 — Costs and Expenses

It is proposed to refer to the Regulatory Division in this article, as it alone can conduct such an investigation.

Article 4151 — Originating Notice

The Bourse suggests to refer to the Regulatory Division in this article from now on, in subparagraph b) ii), as it is specifically responsible for the activities mentioned in this section, according to the Rules Regarding the Regulatory Division and the decisions rendered by the AMF, including decision no. 2008-PDG-0102.

Article 4152 — Reply

For the same reasons as mentioned above, it is suggested to replace “Secretary of the Bourse” by “Vice-President, Legal Affairs, Derivatives”, in the first paragraph of article 4152.

Article 4153 — Notice of Hearing

For the same reasons as stated above, it is also proposed to replace “Bourse” by “Regulatory Division” in the first paragraph of this article.

Article 4154 — Public Hearing

The Bourse proposes to amend this article by adding a provision similar to the one provided in IIROC’s Rule 20 — Corporation Hearing Processes, under paragraph 1) of article 50, to the

effect that the Disciplinary Committee’s hearings held for offers of settlement shall only be available to the public once such offer has been accepted by the Disciplinary Committee.

Article 4155 — Hearing Procedure

The Bourse wishes to amend paragraph a) of this article in order to specify that a person to whom an originating notice has been served, or its representatives, shall be authorized to assist to a hearing in person or by videoconference

Given that at present, approved participants and approved persons of the Bourse which can be involved in disciplinary proceedings are located not only in Canada, but also in the United States of America and the United Kingdom, the Bourse considers that they should have the opportunity to assist to such hearing by videoconference rather than in person, if they so desire.

It is also proposed to replace, in paragraphs a) and c) of this article, “Bourse” by “Regulatory Division”.

Article 4157 — Obligation to answer

It is proposed to replace “Bourse” by “Regulatory Division” in this article.

Article 4160 — Decision

The Bourse proposes to add a paragraph e), to take into account the proposed modifications to section C of Rule Four, in relation to settlements. More specifically, in cases where the offer of settlement is rejected, it is suggested that the motives of the Disciplinary Committee shall not be made available to the public, but that these will be surrendered to the members of the Disciplinary Committee to whom subsequent offers of settlement could be presented, if applicable. Such provisions exist in IROC’s Rule 20 — Corporation Hearing Processes, article 38, paragraph (3).

Article 4201 — Offer of settlement

The amendments to this article aim to reflect the fact that the Regulatory Division is exclusively

responsible for the negotiation of a settlement, with any person involved in disciplinary proceedings.

The Bourse also considers it important to replace the term “accept” with “negotiate”, given the proposed modifications to articles 4201 and following of Rule Four.

Article 4202 — Form of the Offer of Settlement

It is proposed to modify this article in order to, firstly, replace most references to the Bourse by the Regulatory Division and, secondly, amend as necessary paragraphs e) and f) of article 4202, given the proposed modifications to the section pertaining to settlements in Rule Four.

Article 4203 — Submission and Acceptance of an Offer of Settlement

The Bourse suggests amending the title of this article in order to avoid any confusion with articles 4204 and 4207, which also deal with the acceptance of an offer of settlement.

It is also proposed to modify the text of this article to specify that an offer of settlement must be submitted to the Vice-President of the Regulatory Division, rather than to an “officer of the Bourse”.

Finally, considering the proposed modification to article 4201 and more specifically, that an offer of settlement may be negotiated with Regulatory Division staff, as well as the proposed amendments which would confer unto the Disciplinary Committee the power to accept or reject any offer of settlement, the Bourse wishes to abrogate the second part of this article.

Article 4204 — Acceptance by an Authorized Officer

Considering the proposed modifications aiming to replace certain references to the term “Bourse” by “Regulatory Division”, as it is exclusively responsible for the activities and duties involved here, the Bourse suggests to amend the title and

text of article 4204 to replace the phrase “authorized officer” by “Vice-President, Regulatory Division”.

In so doing, the Bourse wishes to maintain in Rule Four the possibility to accept any offer of settlement involving either sanction provided for in article 4204, albeit by the Vice-President of the Regulatory Division rather than by an authorized officer of the Bourse.

Article 4205 — Rejection of an Offer of Settlement

It is proposed to proceed to the amendments rendered necessary by other modifications to Rule Four, in order to specify that from now on, the Disciplinary Committee or, in cases provided for in article 4204, the Vice-President of the Regulatory Division, will be able to reject any offer of settlement previously negotiated with the staff of the Regulatory Division.

Article 4207 — Acceptance of Settlement Offers

It is proposed to make similar amendments such as those suggested for article 4205.

Article 4253 — Notice of Appeal

Article 4255 — Appeal Briefs

For these two articles, it is proposed to replace current references made to the Secretary of the Bourse by the Vice-President, Legal Affairs, Derivatives, given the similar amendments discussed above.

Article 4260 — Appeal under the Securities Act

The Bourse wishes to amend the title and text of this article, given that the appeal of a decision of the Special Committee is now provided for in the *Derivatives Act* (R.S.Q., chapter I-14.01).

Article 4305 — Interim Orders for Unsatisfactory Financial Condition or Practices

In addition to the amendments aiming to replace certain references to the “Bourse” by “Regulatory Division”, it is proposed to add the expression

“approved person” to the enumeration in subparagraph ii) of paragraph a).

For Rule Four, the concept of approved person refers to employees of approved participants who are approved by the Bourse, in compliance with article 6366 of Rule Six, as well as to designated representatives approved pursuant to article 3501 of Rule Three. To this effect, as indicated further in this analysis, the Bourse intends to add to section VI of Rule Four a definition similar to the one found in paragraph d) of article 3001 of Rule Three, since March 30, 2010.⁴

As for paragraph b) of article 4305, the Bourse wishes to update the interim orders that can be imposed by the Special Committee, given the fact that the Bourse no longer carries on members regulation activities.

Article 4306 — Defaulters

For the same reasons as those mentioned for the amendments to Rule Three⁵ and specifically, to article 3009, the Bourse proposes to remove the reference to the clearing corporation in subparagraph ii) of paragraph a).

Article 4351 — Responsibility of Approved Participants

It is suggested to abrogate the reference to employees of approved participants in this article, as they are only under the jurisdiction of the Bourse if they are “approved persons”.

Article 4353 — Responsibility of Supervisors

The Bourse wishes to modify the title of this article, in order to refer to the approved persons of the Bourse, in compliance with the definition it is proposed to add to Rule Four and as will be discussed further in this analysis.

Similarly as in article 4351, considering this definition and the fact that the Bourse no longer carries on member regulation activities, it is also

⁴ See circular no. 032-2010

⁵ *Idem*

suggested that all current references to employees be removed from this article.

Article 4401 — Service

For the same reasons as those mentioned above, it is proposed to amend the references to the Secretary of the Bourse, and to specify in subparagraph ii) of paragraph a) that delivery by messenger is an acceptable method of service for any document to be served to a person, under the current Rule.

Rules Regarding the Special Committee – Regulatory Division

Article 6 — Powers

The Bourse proposes to abrogate the current paragraph 6.14 of the Rules Regarding the Special Committee - Regulatory Division since, pursuant to the amendments suggested for section C of Rule Four regarding settlements, the Disciplinary Committee of the Bourse would henceforth have the exclusive power to accept or dismiss an offer of settlement, except for instances provided for under article 4204.

D) New Article

Article 4405 — Approved Person

To avoid any confusion and as mentioned in the context of the amendments proposed to article 4305, the Bourse wishes to add an article to section VI — Miscellaneous Provisions of Rule Four. This article is comprised of the same definition of “approved person” as found in article 3001, paragraph d) of Rule Three — Approved Participants, following the updating of this Rule which became effective on March 30, 2010.

E) Public Interest

Since the abrogations and regulatory amendments proposed in this analysis aim to update Rule Four of the Bourse and the Rules regarding the Special Committee - Regulatory Division, for reasons indicated in this analysis, the Bourse believes

these abrogations and amendments are of public interest.

F) Impact of proposed amendments on the systems

The Bourse considers that the proposed regulatory abrogations and amendments will have no significant impact on the systems of approved participants, their approved persons, clients or the public in general.

G) Interest of Financial Markets

The Bourse considers that the proposed abrogations and amendments will not negatively affect the interests of financial markets.

H) Other Considered Alternatives

No other alternative has been considered by the Bourse.

III COMMENTS

A) Efficiency

As previously mentioned, the main objective of the proposed abrogations and amendments to Rule Four and to the Rules Regarding the Special Committee - Regulatory Division, as discussed in this analysis, is to update the regulation of the Bourse for reasons explained above.

B) Process

The first step for the approval of the regulatory abrogations and amendments that are proposed in this analysis consist in having them approved by the Special Committee – Regulatory Division of the Bourse.

The proposed abrogations and amendments are then submitted to the approval of the Rules and Policies Committee of the Bourse. Once the approval of the Rules and Policies Committee is

obtained, the project is simultaneously published by the Bourse for a 30-day comment period and submitted to the Autorité des marchés financiers (AMF) for self-certification purposes. The AMF also publishes the proposed amendments and the 30-day request for comments in its weekly bulletin.

Finally, a copy of the abrogations and amendments proposal is transmitted to the Ontario Securities Commission for information.

IV REFERENCES

- Rule Four of Bourse de Montréal Inc. — Investigations, Discipline and Appeals
- Rules regarding the Special Committee – Regulatory Division of Bourse de Montréal Inc.
- Rule Three of Bourse de Montréal Inc. — Approved Participants
- Rules of Bourse de Montréal Inc. regarding the Regulatory Division
- Decision no. 2004-PDG-0223 rendered by the Autorité des marchés financiers (AMF) on December 30, 2004 – Published in the weekly bulletin of the AMF on January 7, 2005 (vol. 02, no. 1)
- Decision no. 2008-PDG-0102 rendered by the Autorité des marchés financiers (AMF) on April 10, 2008 – Published in the weekly bulletin of the AMF on April 11, 2008 (Vol. 05, no. 14)
- Rule 20 — Corporation Hearing Processes, of the Investment Industry Regulatory Organization of Canada (IIROC)

RULE FOUR**INVESTIGATIONS, DISCIPLINE AND APPEALS****Section I****Inspection and Investigation****4001 Information**

(16.10.89, 11.03.92, 15.03.05, 00.00.00)

Approved participants, their employees, 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 [BourseRegulatory 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 [BourseRegulatory Division](#) access to any records, registers, data, data bases, files, documents, papers and information for examination, and allow the [BourseRegulatory Division](#) or its representative to obtain copy thereof on demand.

For the purposes of any investigation or examination, the [BourseRegulatory Division](#) or its representative may obtain such information from any source whatsoever, including any of the customers of any approved participants.

The [BourseRegulatory 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 [BourseRegulatory 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 [BourseRegulatory 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, 00.00.00)

Immediate notice must be given in writing to the [BourseRegulatory Division](#) by an approved participant, approved person or restricted trading permit holder in the event that:

- a) such person, or any other approved participant, employee, [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, or

- 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)

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, an approved person or a restricted trading permit holder.

4004 Summary Proceedings

(11.03.92, 15.03.05)

If, following an examination or investigation or by reason of any information otherwise obtained by the Bourse, it appears that circumstances so warrant, the Special Committee may proceed by way of summary proceedings in accordance with the provisions of articles 4301 and following of this Rule.

4005 Failure to Provide Information or to Appear

(11.03.85, 11.03.92, 15.03.05)

Any approved participant, 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, 00.00.00)

The costs and expenses paid or incurred by the [BourseRegulatory 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, approved person or restricted trading permit holder who must pay the amount thereof upon demand.

4007 Information to other organizations

(05.02.98, 15.03.05, 00.00.00)

Upon request from any recognized organization to provide information in connection with an investigation being carried out by such organization and subject to the legislation relating to the protection of personal information, each approved participant must submit the requested information directly to the organization making the request and this, in the form and manner prescribed by that organization, including electronically.

For the purposes of this article, the term “recognized organization” means an exchange, a self-regulatory organization, a securities commission or any similar authority ~~and~~ to whose jurisdiction the approved participant is subjected in any manner ~~in reason of the approved participant’s status as a member, a participant or as a registered or approved entity or such organization~~ or with whom the Bourse has entered into an agreement for the sharing of information.

Section II
Standards of Conduct
(abr. 15.03.05)

4051 Standards of Conduct

(11.03.85, 11.03.92, abr. 15.03.05)

4052 Disclosure of Conflicting Interests or Contrary Views

(11.03.85, 11.03.92, abr. 15.03.05)

Section II

Disciplinary and Other Matters
Subject to Hearings

A. Complaints

4101 Complaints

(11.03.85, 11.03.92, 15.03.05, 29.03.06)

- a) The Bourse, an approved participant, 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, 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, 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, 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, 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, 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.

4102 Disciplinary Committee

(11.03.92, 15.03.05, 00.00.00)

- a) A committee known as the Disciplinary Committee is constituted pursuant to the provisions of this article to hear complaints brought under article 4101, as well as to accept or reject offers of settlement pursuant to articles 4201 and following.
- b) The Disciplinary Committee is comprised of three persons named by the Secretary of the Bourse Vice-President, Legal Affairs, (Derivatives), who shall select two of them among the persons mentioned in sub-paragraph a) of article 4103 or among the members of the Special Committee, and one among persons mentioned in sub-paragraph b) of article 4103.

4103 List of Designated Persons

(22.03.88, 11.03.92, 15.03.05)

The Bourse maintains a list of persons eligible to sit on a Disciplinary Committee. This list and any change thereto must be approved by the Special Committee.

The list shall consist of:

- a) Individuals:
- i) who are directors, officers or partners of approved participants; or

- ii) who are retired from the securities industry and who were previously directors, officers or partners of an approved participant.
- b) at least two (2) individuals who are related neither to an approved participant, nor to the Bourse.

4104 Solemn Affirmation

(11.03.92, 15.03.05)

Before a hearing, each persons designated to hear the case must make a solemn affirmation to the effect that:

- i) to her knowledge, there is no legitimate grounds for her recusation as provided in paragraphs 1 to 10 of article 234 or in article 235 of the Code of Civil Procedure; and
- ii) she will not reveal or make known, without being authorized by law, anything whatsoever of which she takes cognizance in the performance of her duties.

4105 Disciplinary Penalties(11.03.85, 11.03.92, 18.10.00, 15.03.05, 00.00.00)

In finding any approved participant, 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, 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;

- i) 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.

4106 Costs and Expenses

(11.03.85, 11.03.92, 18.10.00, 15.03.05)

Where the [BourseRegulatory Division](#) conducts an investigation following a complaint that was made, or information that was provided by a person under its jurisdiction and determines that the complaint or information was frivolous or unfounded, the Bourse may recover the costs of the investigation from that person.

B. Proceedings

4151 Originating Notice

(11.03.85, 11.03.92, 15.03.05, 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, ~~the Bourse 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, 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 [BourseRegulatory Division](#) and the conclusions drawn by the [BourseRegulatory 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 [Secretary of the Bourse Vice-President, Legal Affairs, \(Derivatives\)](#).

4152 Reply

(11.03.85, 11.03.92, 15.03.05, [00.00.00](#))

A person served with an originating notice must, within ten (10) business days from the date of service, serve to the [Secretary of the Bourse Vice-President, Legal Affairs, \(Derivatives\)](#), a reply signed by the person or by an individual authorized to sign on behalf of the person.

The reply must set out specifically for each fact alleged in the originating notice, whether such fact is admitted or denied, and contain a statement of the person's position with regard to the conclusions drawn by the Bourse in the originating notice and a statement of any additional facts relied on by the person.

Failure to file a reply within the prescribed delay may result in foreclosure from producing any witness at the hearing.

4153 Notice of Hearing

(22.03.88, 11.03.92, 15.03.05, [00.00.00](#))

When by reason of the reply to the originating notice or for any other reason the [Bourse Regulatory Division](#) determines that a formal hearing is required, ~~the Bourse~~ shall proceed as follows:

After the expiry of the ten (10) business days delay for the service of the reply, the Bourse shall serve a notice of hearing of at least ten (10) business days indicating the date, time and place of the hearing on the persons to whom the originating notice was addressed.

The notice of hearing shall include a statement requiring the person to attend the hearing, failing which the Disciplinary Committee may proceed with the hearing of the matter in that person's absence.

4154 Public Hearing

(11.03.92, 15.03.05, [00.00.00](#))

All hearings are held in public, [except for those pertaining to offers of settlement presented pursuant to articles 4201 and following, which shall only be held in public once such an offer of settlement has been accepted by the Disciplinary Committee.](#)

However, the Disciplinary Committee hearing the matter may, on its own initiative or upon request, order that a hearing be held in camera, in part or in whole, or prohibit the publication or disclosure of specific information or documents, in the interest of good morals or public order, particularly to preserve confidential business information or privileged communications or to preserve an individual's privacy or reputation.

4155 Hearing Procedure

(22.03.88, 11.03.92, 15.03.05, [00.00.00](#))

- a) Any person on whom an originating notice was served and that person's representatives is entitled to attend the hearing, in person or, if necessary, by way of videoconference, for the purpose of hearing the evidence, cross-examining the witnesses presented by the BourseRegulatory Division, presenting their own witnesses subject to the last paragraph of article 4152, and making representations to the Disciplinary Committee hearing the matter;
- b) Such person may be assisted by a lawyer at the hearing;
- c) If a written report in respect of the matter has been prepared by the BourseRegulatory Division and if the latter proposes to table such report at the hearing, a copy of such report must be given to the parties beforehand;
- d) The Disciplinary Committee may admit as evidence any documentary proof without a witness if the Committee is of the opinion that the rights of cross-examination would not be affected.
- e) In the event of a guilty verdict in disciplinary matters, the parties are entitled to be heard on the penalty to be imposed, unless the Disciplinary Committee has previously ruled that representations on the penalty shall be made prior to its deliberations on the merits.

4156 Testimony

(11.03.92, 15.03.05)

Any person required to testify before the Disciplinary Committee must make a solemn declaration.

4157 Obligation to Answer

(11.03.92, 15.03.05, 00.00.00)

The BourseRegulatory Division has the right to question a person who is subject to a complaint or who is accused of having breached a provision of the regulations of the Bourse as well as to any other person under its jurisdiction, and such person shall be obliged to answer all questions.

4158 Ex Parte Hearing

(22.03.88, 11.03.92, 15.03.05)

If a person notified of the hearing fails to attend the hearing specified in the notice of hearing, the Disciplinary Committee may proceed with the hearing and disposition of the matter on the date and at the time and place set out in the notice of hearing without further notice, and in the absence of the person, even if the person has served a reply in accordance with article 4152.

4159 Deliberations

(11.03.92, 15.03.05)

The deliberations of the Disciplinary Committee hearing the matter must be made in the absence of any other person.

4160 Decision

(11.03.85, 29.04.86, 11.03.92, 15.03.05, 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.

4161 Report to the Special Committee
(11.03.85, 11.03.92, 15.03.05)

If no appeal has been brought at the expiry of the delay to appeal, the Disciplinary Committee that has conducted the hearing must report thereon to the Special Committee.

C. Settlement

4201 Offer of Settlement
(29.06.87, 11.03.92, 15.03.05, 00.00.00)

The BourseRegulatory Division may ~~accept~~negotiate, at any time, an offer of settlement ~~from~~with any person served with an originating notice.

4202 Form of the Offer of Settlement
(29.06.87, 11.03.92, 25.03.94, 15.03.05, 00.00.00)

The offer of settlement must:

- i) be in writing in the form prescribed by the BourseRegulatory Division;
- ii) be signed by the person proposing the settlement; and
- iii) contain the following :
 - a) the provisions of the regulations that have been breached or not complied with, according to the BourseRegulatory Division;

- b) a statement of the facts agreed upon by the BourseRegulatory Division and the person proposing the offer of settlement;
- c) the disposition of the matter, including any penalty to be imposed and the amount of costs and expenses of the BourseRegulatory Division to be paid by the person proposing the offer of settlement;
- d) the consent of ~~the~~is person to the settlement;
- e) a statement that the settlement must be approved by the SpecialDisciplinary Committee or, in the cases provided for in article 4204, by ~~an authorized officer~~the Vice-President, Regulatory Division, failing which it shall not bind the parties ~~concerned~~involved, and the Bourse shall proceed with the hearing of the matter; and
- f) a waiver by the person of all rights under the regulations of the Bourse to a hearing or to an appeal should the offer of settlement be accepted by the SpecialDisciplinary Committee or, in the cases provided for in article 4204, by ~~an authorized officer~~the Vice-President, Regulatory Division.

4203 Submission ~~and Acceptance~~ of an Offer of Settlement

(29.06.87, 11.03.92, 15.03.05, 00.00.00)

The offer of settlement must be submitted to ~~an officer of the Bourse~~the Vice-President, Regulatory Division ~~who, subject to article 4204, must refer the matter to the Special Committee~~which alone may decide whether to accept or reject the offer of settlement.

4204 Acceptance by ~~an Authorized Officer~~the Vice-President, Regulatory Division

(11.03.92, 15.03.05, 00.00.00)

An offer of settlement of a disciplinary matter may be approved by ~~an officer of the Bourse~~the Vice-President, Regulatory Division when the penalty to be imposed is a reprimand, a fine not exceeding \$5,000, the penalty provided in paragraph h) of article 4105, or a combination of the three (3). Upon submission of the offer, the ~~authorized officer~~Vice-President, Regulatory Division must:

- i) accept the offer of settlement,
- ii) reject the offer of settlement, or
- iii) accept the offer with a lesser penalty than the one agreed upon.

4205 Rejection of an Offer of Settlement

(29.06.87, 11.03.92, 15.03.05, 00.00.00)

In the event that an offer of settlement is rejected by the SpecialDisciplinary Committee or by ~~an authorized officer~~the Vice-President, Regulatory Division, as the case may be, the Bourse must proceed with the hearing of the matter unless the parties involved agree to negotiate a new offer of settlement.

4206 Privilege of an Offer of Settlement~~Settlement Offers~~
(11.03.92, 15.03.05)

All discussions in relation with ~~the~~an offer of settlement are without prejudice. No part of such a discussion must be used as evidence or referred to in any proceedings whatsoever.

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

In the event an offer of settlement is accepted by the ~~Special~~Disciplinary Committee of the Bourse or, in the cases provided for in article 4204, by ~~an authorized officer~~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.

D. Appeals

4251 Sole Jurisdiction of the Special Committee
(11.03.85, 11.03.92, 15.03.05)

An appeal from a decision of the Disciplinary Committee, any other committee of the Bourse or the staff of the Bourse may be brought before the Special Committee. The members of the Disciplinary Committee who participated to the hearing of the case in the first instance, can not participate to the hearing of the appeal by the Special Committee.

4252 Delay of Appeal
(11.03.92, 15.03.05)

The appeal must be brought within ten (10) business days of the service of the decision.

4253 Notice of Appeal
(11.03.92, 15.03.05, 00.00.00)

Any appeal of a decision of the Disciplinary Committee, of another committee of the Bourse, or of a member of the staff of the Bourse must be brought by filing a written notice of appeal with the ~~Secretary of the Bourse~~Vice-President, Legal Affairs, (Derivatives). The notice must contain a brief statement of the grounds for appeal and be served upon the parties.

4254 Security for Costs
(11.03.92, 15.03.05)

When the appeal appears abusive, dilatory, frivolous, or for some other special reason, the Special Committee may, upon request, order the appellant to furnish, within a set delay, security to guarantee, in whole or in part, the payment of the costs of appeal, the amount of the fine and the costs and expenses listed in article 4106, should the appeal be dismissed.

If the appellant does not furnish security within the prescribed delay, the Special Committee may dismiss the appeal.

4255 Appeal Briefs

(11.03.92, 17.06.98, 15.03.05, 00.00.00)

Within fifteen (15) business days of the filing of the notice of appeal, the appellant must file with the ~~Secretary of the Bourse~~ Vice-President, Legal Affairs, ~~(Derivatives)~~, a brief containing the appellant's arguments, in nine (9) copies, and must serve another copy on the respondent.

Within fifteen (15) business days of the receipt of the appellant's brief, the respondent must file with the ~~Secretary of the Bourse~~ Vice-President, Legal Affairs, ~~(Derivatives)~~, nine (9) copies of the respondent's brief and serve another copy on the appellant.

If the appellant fails to file the brief within the above-mentioned delay, the appeal may be dismissed upon application to the Special Committee.

4256 Stay of Execution

(11.03.92, 15.03.05)

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, 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.

4257 Hearing of the Appeal and Additional Evidence

(11.03.92, 15.03.05)

The appeal is argued on the basis of the file in first instance and of the appeal briefs.

However, in exceptional circumstances and if the ends of justice so require, the Special Committee may authorize the presentation of additional evidence.

4258 Applicable Rules

(11.03.92, 15.03.05)

Subject to the provisions of this Subsection D, the same rules as set forth in articles 4153 and following apply to any hearing before the Special Committee, with the necessary changes.

4259 Disqualification
(11.03.85, 11.03.92, 15.03.05)

- a) No officer of the Bourse is eligible to sit at a hearing in first instance or on appeal.
- b) A member of the Special Committee who has any grounds for recusation pursuant to article 4104 is not eligible to sit in appeal from a decision.

4260 Appeal Under the [Securities Derivatives Act](#)
(11.03.92, 15.03.05, [00.00.00](#))

Any appeal from a decision of the Special Committee is governed by the Quebec [Securities Derivatives Act](#).

Section IV
Summary Proceedings

4301 Intervention by the Bourse
(11.03.85, 11.03.92, 15.03.05)

- a) Where the Special Committee deems it necessary for the protection of the public and the reputation of the Bourse, it may suspend an approved participant or suspend or revoke approval of any person without following the procedures set forth in articles 4151 and following, provided that the Bourse issues forthwith a notice of hearing and convene a hearing within the following fifteen (15) business days.
- b) Articles 4302 to 4306 provide examples of circumstances which may cause the Special Committee to intervene without notice, but the power of the Special Committee to intervene pursuant to paragraph a) shall not be limited to such circumstances.

4302 Conviction
(11.03.85, 11.03.92, 15.03.05)

- a) If any approved participant, 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, 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, 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)

If any approved participant, 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)

If any approved participant, employee of an approved participant, approved person or restricted trading permit holder refuses or neglects to provide information or to appear ~~before the Bourse~~ 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, 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, 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, approved person or restricted trading permit holder, whether made pursuant to the regulations of the Bourse, the ~~Securities Act~~ applicable legislation or otherwise, or if, on the basis of any reliable information otherwise obtained by or given to the ~~Bourse~~ 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, 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, 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, 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, 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. ~~imposing special or additional capital requirements taking into account the circumstances of the approved participant's business or its financial condition;~~

~~2. restricting one or more sectors of the approved participant's operations with a view to reducing its future liabilities;~~

~~3. requiring the attendance at the approved participant's premises, for the surveillance of its affair trading activities on the derivatives instruments listed on the Bourse, of employees or representatives of the Bourse according to such terms of reference as the Special Committee may decide upon in the circumstances;~~

~~4. changing the banking resolutions and instructions for clearing and delivery of securities in order to ensure surveillance and restriction of payments and deliveries which otherwise might affect the approved participant's ability to meet its obligations to arms length clients and creditors;~~

~~5. requiring the mailing of notices to clients in terms specified by the Bourse 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)

- a) An approved participant, 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, 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, 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, ~~the clearing corporation,~~ another approved participant, restricted trading permit holder, or to the public;
- b) An approved participant, 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 ~~Bankruptcy and Insolvency Act~~ 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.

4307 Closing Out Contracts Against Defaulters and Bankrupts

(11.03.85, 11.03.92, 15.03.05, abr. 00.00.00)

~~a) Exchange Trades~~

- ~~i) All outstanding exchange trades with a defaulter or with a bankrupt or insolvent approved participant shall be closed out by the other approved participants concerned at the first trading session at which this can reasonably be done after the notice of the default, bankruptcy or insolvency has been received or posted, otherwise the prices quoted at such trading session shall be held to be the basis for the settlement of claims. However the Special Committee in its entire discretion may postpone the time for closing out any or all such trades.~~
- ~~ii) Any profit on a closed out trade shall be paid to the Bourse and any claims for losses shall be filed with the Bourse. All losses shall be settled from out of the profits and any surplus remitted to the defaulter or the trustee or liquidator.~~

~~b) Non Exchange Trades~~

- ~~i) All outstanding contracts other than exchange trades with a defaulter or with a bankrupt or insolvent approved participant shall be closed out by the other approved participants concerned as soon as this can reasonably be done after the receipt or posting of the notice of default, bankruptcy or insolvency; otherwise the price quoted at such time shall be held to be the basis for the settlement of claims. However, the Special Committee in its discretion may postpone the time for closing out any or all such trades.~~
- ~~ii) Profits and losses shall be dealt with in the manner provided in sub paragraph a) ii) above.~~

4308 Reinstatement of Defaulters
(11.03.85, 11.03.92, 15.03.05)

An approved participant who has been expelled may apply to the Special Committee for reinstatement as an approved participant. No one may be reinstated as an approved participant pursuant to the present article, if:

- a) the approved participant was expelled pursuant to a provision of the regulations of the Bourse other than those covered by articles 4301 and following;
- b) the approved participant is insolvent or bankrupt;
- c) the Special Committee is not satisfied that the approved participant is no longer in default of any of its liabilities or obligations;
- d) the application for reinstatement is not approved by the Special Committee.

Section V
Responsibility**4351 Responsibility of Approved Participants**
(11.03.85, 11.03.92, 15.03.05, 00.00.00)

An approved participant may be found liable by the Bourse for the conduct of one of its approved person or employee . The approved participant shall be subject to the same penalties as if it had engaged itself in that conduct and the imposition of any penalty against an approved participant does not prevent the imposition by the Bourse of any penalty against any of the approved persons ~~or employees of such approved participant~~ in respect of the same facts.

4352 Responsibility of Partners, Directors and Officers of Approved Participant
(11.03.85, 11.03.92, 15.03.05, abr. 00.00.00)

~~—Any partner, director or officer of an approved participant may be found liable by the Bourse for the conduct, business or affairs of the approved participant if they had responsibility for same, in fact or in law, and shall be subject to the same penalties as if they had engaged themselves in that conduct, business or affairs.~~

~~—The imposition of any penalty against any partner, director or officer of an approved participant does not prevent the imposition by the Bourse of any penalty against the approved participant in respect of the same facts.~~

4353 Responsibility of Supervisors Supervising Approved Persons
(11.03.85, 11.03.92, 15.03.05, 00.00.00)

An approved person ~~or an employee of an approved participant~~ who has authority over, supervises or is responsible to the approved participant for another approved person or employee of the approved participant may be found liable by the Bourse for the conduct of the approved person or employee under

their supervision and shall be subject to the same penalties as if they had themselves engaged in that conduct.

The imposition of any sanction against a supervising approved person ~~or employee~~ does not prevent the imposition by the Bourse of any penalty against the supervised approved person, ~~or employee~~, or the approved participant, in respect of the same facts.

Section VI Miscellaneous Provisions

4401 Service

(11.03.85, 11.03.92, 15.03.05, 00.00.00)

a) For the purposes of this Rule :

- i) any document required to be served on the Bourse must be addressed to the attention of the ~~Secretary of the Bourse~~ Vice-President, Legal Affairs, ~~(Derivatives)~~, and delivered by messenger or by registered mail, in either case, with proof of receipt signed by a representative of the Bourse;
- ii) any document required to be served on any person other than the Bourse must be served by delivering it directly to the person, by messenger or by sending it by registered mail addressed to the person to their latest residence or business address shown in the records of the Bourse;

b) If it is not possible to serve a document in accordance with the requirements of paragraph a) ii), the Bourse may use any other manner of service that is likely to bring the document to the attention of the person.

c) An affidavit signed by an employee or representative of the Bourse attesting that the service requirements of subparagraph a) ii) have been complied with is sufficient proof of service.

4402 Computation of Delay

(11.03.85, 11.03.92, 15.03.05)

In computing any delay fixed by this Rule, the day which marks the start of the delay is not counted, but the terminal day is counted.

4403 Severability

(11.03.92, 15.03.05)

The powers and procedures provided for in this Rule are to be construed as severable, and the in validity of any provision hereof shall not affect the validity of any other provision of this Rule.

4404 Transitional Provision

(11.03.92, 15.03.05)

The present rules take effect immediately but shall not apply to any matter in which a hearing has already begun.

4405 Approved Person

(00.00.00)

For the purpose of this Rule, the term “approved person” refers to employees of an approved participant who are approved by the Bourse pursuant to article 6366, or to designated representatives who are approved pursuant to article 3501.

**RULES REGARDING THE
SPECIAL COMMITTEE - REGULATORY DIVISION**

1. Definitions
(24.11.00, 28.08.03, 25.09.09)

In these Rules:

“Approved participant” shall mean an approved participant of the Bourse, whose name is duly recorded as such on the register referred to in article 3010 of the Rules of the Bourse and who has been approved by the Bourse pursuant to its Rules for the purpose of trading products listed on the Bourse;

“Board” shall mean the Board of Directors of the Bourse;

“Bourse” shall mean Bourse de Montréal Inc.;

“Independent member” shall mean a physical person who is a member of the Special Committee and who conforms to the board of directors independence standards of the Bourse.

“Special Committee” shall mean the Special Committee – Regulatory Division appointed hereunder by the Board;

“Regulatory Division” shall mean the Regulatory Division of the Bourse established by the Board;

“Restricted trading permit holder” shall mean the holder of a permit to trade specific listed products issued to a non-approved participant pursuant to articles 3951 and following of Rule Three of the Bourse which were re-adopted, by resolutions of the Board dated October 1, 2000, as forming part of the Rules and Policies of the Bourse.

2. Binding effect
(24.11.00, 25.09.09)

These Rules regarding the Special Committee shall be binding on all approved participants, on the directors, officers and employees of approved participants and on restricted trading permit holders.

3. Composition of the Special Committee
(24.11.00, 20.10.04, 25.09.09)

The Special Committee shall consist of a majority of persons who are Quebec residents, at the time of their appointment and for the duration of their term, and of persons who satisfy the independence conditions that are applicable to the Directors of the Bourse.

4. Appointment
(24.11.00, 25.09.09)

The members of the Special Committee shall be appointed by resolution of the Board for a term of two years. Such appointment may be renewed at the discretion of the Board. A member of the Special

Committee whose term has expired shall remain in office as long as necessary to permit the completion of any matter on which such member was sitting prior to the expiry of the term.

5. Quorum
(24.11.00, 20.10.04, 25.09.09)

The quorum at meetings shall be constituted of a majority of members in office of the Special Committee attending in person, by telephone or by videoconference and the majority of members so attending must be Quebec residents at the time of their nomination and for the duration of their term and must satisfy the independence criteria that are applicable to the Directors of the Bourse.

6. Powers
(24.11.00, 25.09.09)

The Special Committee shall have the following powers:

- 6.1 make recommendations to the Board regarding the separate budget of the Regulatory Division;
- 6.2 supervise and control the activities of the Regulatory Division, subject to the final authority of the Board and the Autorité des marchés financiers;
- 6.3 adopt or amend Rules and Policies of the Bourse relating to:
 - 6.3.1 applications for admission as approved participant;
 - 6.3.2 the operations and standards of practice and business conduct applicable to approved participants and restricted trading permit holders;
 - 6.3.3 investigations and disciplinary matters;
 - 6.3.4 dispute resolution.
- 6.4 recommend to the Board the adoption or amendment of Rules and Policies of the Bourse relating to:
 - 6.4.1 margin requirements;
 - 6.4.2 capital requirements applicable to approved participants; and
 - 6.4.3 market surveillance;
- 6.5 approve the applications for approved participant or designated representative status, as well as the suspension and revocation of such approvals pursuant to articles 3001 to 3960 of the Rules of the Bourse;
- 6.6 approve the resignations of approved participants pursuant to articles 3701 to 3708 of the Rules of the Bourse;

- 6.7 approve corporate changes affecting approved participants, such as changes of control, acquisitions of major positions and reorganizations;
- 6.8 suspend or revoke restricted trading permits pursuant to articles 3951 to 3960 of the Rules of the Bourse;
- 6.9 order that a special examination or investigation be made pursuant to article 4003 of the Rules of the Bourse;
- 6.10 should the circumstances warrant, proceed summarily in the situations mentioned in articles 4004 and 4301 and following of the Rules of the Bourse;
- 6.11 order a suspension for failure to provide information pursuant to article 4005 of the Rules of the Bourse;
- 6.12 proceed to the hearing of appeals from decisions rendered by the Disciplinary Committee in regards to complaints, pursuant to articles 4101 and following of the Rules of the Bourse;
- 6.13 proceed to the hearing of appeals from decisions rendered by any other committee of the Bourse or the staff of the Bourse; [and](#)
- 6.14 ~~accept or reject an offer of settlement pursuant to article 4203 of the Rules of the Bourse; and~~
- ~~6.15~~ report to the Board regarding the the execution by the Regulatory Division of its regulatory duties.

7. Procedure
(24.11.00)

The rules of procedure applicable to the Special Committee shall be the rules of procedure of the Board, subject to such changes as may be necessary to adapt them to the circumstances.

8. Decisions and Minutes
(24.11.00, 25.09.09)

Decisions of the Special Committee shall require the vote of the majority of those attending in person, by telephone or by video conference.

In disciplinary matters or summary proceedings, if a member becomes unable to act before a decision is rendered, the decision may be reached by the remaining members, provided they are at least four.

Copies of the minutes of each meeting shall be sent to all members of the Special Committee, to the Chairman of the Board, to the President of the Bourse and to the Vice-President, Legal Affairs and General Secretary.

9. Consequential amendments
(24.11.00, 25.09.09)

Bourse de Montréal Inc.

4.

Notwithstanding article 4251 of the Rules of the Bourse, the decisions of the Special Committee relating to disciplinary matters or summary proceedings can be reviewed in accordance with the law.

10. Transitional
(24.11.00, abr. 25.09.09)