



<input checked="" type="checkbox"/> Trading – Interest Rate Derivatives	<input checked="" type="checkbox"/> Back-office - Options
<input checked="" type="checkbox"/> Trading – Equity and Index Derivatives	<input checked="" type="checkbox"/> Technology
<input checked="" type="checkbox"/> Back-office – Futures	<input checked="" type="checkbox"/> Regulation

**CIRCULAR 170-17**  
November 27, 2017

## **SELF-CERTIFICATION**

### **MARKET MAKING PROGRAMS REFORM**

#### **AMENDMENTS TO ARTICLES 6395 AND 6820 OF RULE SIX OF BOURSE DE MONTRÉAL INC. AND OTHER ANCILIARY 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.

These amendments, as attached, were self-certified in accordance with the self-certification process as established in the *Derivatives Act* (CQLR, Chapter I-14.01) and will take effect on **December 1<sup>st</sup>, 2017**. Please note that these articles will also be available on the Bourse’s website ([www.m-x.ca](http://www.m-x.ca)).

The rule changes described in the present circular were published for public comment by the Bourse on May 11, 2016 (see [Circular 056-16](#)). Further to the publication of this circular, the Bourse has received comments. A summary of the comments received as well as responses from the Bourse to these comments is attached hereto.

For additional information, please contact the following persons:

- For equity derivatives: Gladys Karam, Director, Equity Derivatives, Financial Markets, at 514-871-7880 or at [gladys.karam@tmx.com](mailto:gladys.karam@tmx.com); or
- For interest derivatives: Robert Tasca, Director, Interest Derivatives and Client Solutions, Financial Markets, at 514-871-3501 or at [robert.tasca@tmx.com](mailto:robert.tasca@tmx.com).

Sabia Chicoine  
Chief Legal Officer

**6395 Market Makers - Options and Futures**  
(24.09.01, 29.10.01, 17.12.01)

- 1) General – In order to provide transparency and liquidity in the market and facilitate price discovery and 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 for a minimum period of time, 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. Under the terms of the mandatory market making agreement referred to under paragraph 6, a client of an approved participant notably agrees to the following with respect to its trading activities and conduct as a market maker and must (i) be subject to the jurisdiction of the Bourse acting as a self-regulatory organization, including its Regulatory Division and any of its 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) comply with all the regulations of the Bourse as if it was itself an approved participant, with the necessary adaptations, including with Rule 4 (except with respect to inspections), articles 6301, 6303, 6305, 6306, 6374, 6676, 6377 paragraph 5), 6380, 6381, 6389A, 6400, 6401, 6651 and following regarding position limits, 6661, 6662, 7001, 7002, 7467 et 15508 and following regarding position limits, as these may be amended and/or replaced from time to time.
- 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, it is understood that the approved participant 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 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. 17.12.01)

- ~~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.~~
  - ~~c) 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, 17.12.01)

- 1) General – In order to provide transparency and liquidity in the market and facilitate price discovery and 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 for a minimum period of time, 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. Under the terms of the mandatory market making agreement referred to under paragraph 6, a client of an approved participant notably agrees to the following with respect to its trading activities and conduct as a market maker and must (i) be subject to the jurisdiction of the Bourse acting as a self-regulatory organization, including its Regulatory Division and any of its 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) comply with all the regulations of the Bourse as if it was itself an approved participant, with the necessary adaptations, including with Rule 4 (except with respect to inspections), articles 6301, 6303, 6305, 6306, 6374, 6676, 6377 paragraph 5), 6380, 6381, 6389A, 6400, 6401, 6651 and following regarding position limits, 6661, 6662, 7001, 7002, 7467 et 15508 and following regarding position limits, as these may be amended and/or replaced from time to time.
  - 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, it is understood that the approved participant 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 relative to its market making assignment, irrespective of whether the market making assignment has expired at the time the claim is asserted.

**6820 Market Makers - Futures**

(16.05.11, abr. 17.12.01)

## 1102 Definitions

(07.09.99, 31.01.01, 08.07.02, 02.09.03, 17.06.05, 30.07.13, 17.07.15, 17.12.01)

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, [17.12.01](#))

- 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. 17.12.01](#))

~~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. 17.12.01](#))

~~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. 17.12.01](#))

~~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. 17.12.01](#))

~~—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. 17.12.01](#))

~~—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. 17.12.01](#))

~~—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. 17.12.01](#))

~~—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. 17.12.01](#))

~~—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. 17.12.01](#))

~~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, 17.12.01)

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, 17.12.01)

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 (10<sup>th</sup>) 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, 17.12.01)

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, 17.12.01)



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, 17.12.01)

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, 17.12.01)

- 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, 17.12.01)

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, 17.12.01)

- 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, 17.12.01)

- 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, 17.12.01)

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, 17.12.01)

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, 17.12.01)

- 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, 17.12.01)

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, 17.12.01)

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, 17.12.01)

- 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, 17.12.01)

- 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, 17.12.01)

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.

### 6366 Access to Electronic Trading

(25.09.00, 24.09.01, 19.03.02, 03.11.04, 01.03.14, 17.12.01)

- 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, 17.12.01)

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, 17.12.01)

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, 17.12.01)

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, 17.12.01)

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. 17.12.01)

~~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~~

~~c) 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 and Share Futures Contracts**

(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, 23.11.16, 17.12.01)

- A) Except for those limits specified in article 6651, no Approved Participant shall make, for any account in which it has an interest or for the account of any client, a transaction in a Listed Product 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 or control a position in excess of the position limit established by the Bourse.
- B) Except otherwise indicated, the applicable position limits for options, share futures contracts or aggregated options and share futures contracts positions (as defined under paragraph C) 4)) are as follows:
1. Share futures contracts, aggregated options and share futures contracts positions as well as 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, a net short share futures position, and short underlying interest are on the same side of the market and puts written, calls held, a net long share futures position, 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;~~

23. 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;

34. the “aggregated options and share futures contracts position” is obtained by first netting share futures contracts positions relating to the same underlying share interest and subsequently adding the net futures contracts position (net long or net short) to options positions relating to the same underlying share interest on a per side basis (whether long or short) to determine the aggregate per side quantity held; one option contract being equal to one share futures contract for purposes of this calculation.

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 position limits set out in paragraph B), any one account may hold an amount of options 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-approved participant or client shall reduce the position below the prescribed limit within the period set by the ExchangeBourse. The Exchange-Bourse 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, 17.12.01)

Except with the written permission of the ExchangeBourse, 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. 17.12.01)

~~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. 17.12.01)

- ~~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. 17.12.01)

~~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, 17.12.01)

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, 23.11.16, [17.12.01](#))

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 Bourse in collaboration with 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.

**9221 Exchange Traded Futures Contracts – General**  
(01.01.05, 23.01.06, 17.12.01)

- 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, 17.12.01)

- 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, 17.12.01)

- 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, 17.12.01)

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, 17.12.01)

- 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. 17.12.01)
- 3953 Rights and Obligations of Restricted Trading Permit Holders**  
(01.05.89, 15.03.05, abr. 17.12.01)
- 3954 Additional Rules**  
(11.03.85, 01.05.89, 15.03.05, 30.03.10, abr. 17.12.01)
- 3955 Fees**  
(11.03.85, 25.07.91, 15.03.05, abr. 17.12.01)
- 3956 Surrender of Restricted Trading Permits**  
(11.03.85, 01.05.89, 25.07.91, 01.04.99, 15.03.05, abr. 17.12.01)
- 3957 Arbitration**  
(11.03.85, 15.03.05, abr. 17.12.01)
- 3958 Revocation of Restricted Trading Permits**  
(11.03.85, 01.05.89, 15.03.05, 30.03.10, abr. 17.12.01)
- 3959 Restricted Trading Permit - Option Category**  
(01.05.89, 25.07.91, 02.04.93, 15.03.05, 30.03.10, abr. 17.12.01)
- 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. 17.12.01)

#### **4001 Information**

(16.10.89, 11.03.92, 15.03.05, 02.09.11, 17.12.01)

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, 17.12.01)

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 (10<sup>th</sup>) 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, 17.12.01)

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, 17.12.01)

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, 17.12.01)

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, 17.12.01)

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, 17.12.01)

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, 17.12.01)

- 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, 17.12.01)

- 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, 17.12.01)

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, 17.12.01)

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, 17.12.01)

- 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, 17.12.01)

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, 17.12.01)

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, 17.12.01)

- 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, 17.12.01)

- 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, 17.12.01)

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.

**6366 Access to Electronic Trading**  
(25.09.00, 24.09.01, 19.03.02, 03.11.04, 01.03.14, 17.12.01)

- 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, 17.12.01)

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, 17.12.01)

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, 17.12.01)

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, 17.12.01)

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. 17.12.01)

**6651 Position Limits for Options and Share Futures Contracts**  
(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, 23.11.16, 17.12.01)

- A) Except for those limits specified in article 6651, no Approved Participant shall make, for any account in which it has an interest or for the account of any client, a transaction in a Listed Product 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 or control a position in excess of the position limit established by the Bourse.
- B) Except otherwise indicated, the applicable position limits for options, share futures contracts or aggregated options and share futures contracts positions (as defined under paragraph C) 4)) are as follows:
  - 1. Share futures contracts, aggregated options and share futures contracts positions as well as 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, a net short share futures position, and short underlying interest are on the same side of the market and puts written, calls held, a net long share futures position, 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;
3. the “aggregated options and share futures contracts position” is obtained by first netting share futures contracts positions relating to the same underlying share interest and subsequently adding the net futures contracts position (net long or net short) to options positions relating to the same underlying share interest on a per side basis (whether long or short) to determine the aggregate per side quantity held; one option contract being equal to one share futures contract for purposes of this calculation.

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 position limits set out in paragraph B), any one account may hold an amount of options 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 approved participant or client shall reduce the position below the prescribed limit within the period set by the Bourse. The Bourse may modify any exemption which has been previously granted.

**6652 Exercise Limits**  
(10.11.92, 17.12.01)

Except with the written permission of the Bourse, 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. 17.12.01)

**7008 Joint Account**  
(01.04.93, 13.09.05, arb. 17.12.01)

**7153 Trading activity statement - Restricted Trading Permit Holders**  
(04.05.98, 13.09.05, 22.03.10, abr. 17.12.01)

**7450 Business Conduct**  
(01.04.93, 13.09.05, 22.03.10, 17.12.01)

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, 23.11.16, 17.12.01)

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 Bourse in collaboration with 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.

**9221 Exchange Traded Futures Contracts – General**  
(01.01.05, 23.01.06, 17.12.01)

- 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, 17.12.01)

- 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, 17.12.01)

- 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.

**Circular 056-16: Summarised comments and responses**

No.	Date comment received	Commenting participant category	Comment summaries	Summary of response
1.	June 10, 2016	Dealer Firm	<p>The Commenter supports the initiative of the Bourse. The Commenter, which says it currently acts as market maker on Eurex and NLX exchanges, feels that by making the changes proposed, the Bourse and the end users would benefit greatly from the increased depth of market and tighter bid/ask spreads that those changes would bring.</p>	<p>The Bourse thanks the Commenter for its consideration of the proposed amendments and for expressing its support.</p>
2.	June 27, 2016	Dealer Firm	<p>The Commenter is asking for clarity regarding oversight of market making clients by the approved participant.</p> <p>The Commenter underlines that currently, the Regulatory Division of the Bourse does not have any jurisdiction over clients and therefore must rely on its approved participant to ensure their clients comply with the rules of the MX. According to the Commenter, this has placed a significant responsibility on approved participants and it is unclear whether this responsibility will increase further under the Proposal.</p> <p>The Commenter states it is unclear from the Proposal what role, if any, approved participants will have to fulfill should their clients choose to become market makers. The Commenters is asking that the Bourse’s</p>	<p>The Bourse confirms that the current responsibilities of the Approved Participants granting electronic access to clients, as permitted under the rules of the Bourse, will not increase as a result of the proposal and that a client would not be selected as a market maker without the acknowledgement of the Approved Participant providing it with access to electronic trading.</p> <p>Approved Participants will continue to have the same oversight responsibilities as they have today for any client granted electronic access and will have no added responsibilities as a result of the client becoming a market maker (the Approved Participant will not be responsible in any way for overseeing or guaranteeing that the client meets its market maker obligations). Notably, as currently stipulated under rule 6366 Access to Electronic Trading of the Bourse, the Approved Participant will continue to “establish, maintain and apply standards that are reasonably designed to manage, in accordance with prudent business practices,</p>

		<p>expectations surrounding the obligations of approved participants with clients acting as market makers should be more clearly articulated so that informed decisions can be made including whether or not approved participants wish to carry out that client relationship.</p>	<p>the Approved Participant’s risks associated with providing an electronic access to a client, pursuant to paragraph B), including those set out in the [Regulation 23-103 respecting Electronic Trading]”. While the Bourse would expect that a client of an Approved Participant acting as a market maker would be a relevant consideration in evaluating and establishing the Approved Participant’s standards, the Bourse does not propose to increase the Approved Participant’s current responsibilities.</p> <p>The only change under the proposal, in terms of oversight of clients with direct electronic access granted approval to act as market makers, is the extension of the jurisdiction of the Regulatory Division to include these clients. This change is important in the interest of protecting market integrity. Given the role played by market makers on the Bourse’s market, the Regulatory Division must be able to exercise its enforcement powers over the most appropriate party in the circumstances, including the client acting as a market maker if necessary. One could imagine, for example, a circumstance where the Approved Participant complied with all its oversight responsibilities but the client could still have violated the Bourse’s rules. While the chances of such a circumstance should be low, the Regulatory Division is of the view that client market makers must be subject to the Regulatory Division’s jurisdiction, notably to ensure market integrity and maintain market participants’ confidence in the enforcement powers of the Bourse. Given their roles and responsibilities as market makers, clients acting as market makers, like Approved Participants acting as market makers, must accept being subjected to the enforcement jurisdiction of the Regulatory Division.</p>
--	--	--	---

		<p>The Commenter is concerned that the proposal may jeopardize the integrity of the market which the Bourse serves. According to the Commenter, investors have comfort that IIROC member market makers are registered representatives that have met prescribed proficiency requirements, are generally experienced in trading in the Canadian market, and are directly accountable to IIROC for their business conduct. IIROC Members must also maintain sufficient capital for the business activities they undertake. Allowing clients who are not bound by the same requirements of an IIROC member may not provide the same level of safeguards to investors.</p> <p>According to the Commenter, it is also uncertain whether all clients would demonstrate the same level of commitment to their market making responsibilities as have IIROC members. The Commenter states that this situation currently exists in other jurisdictions and has caused liquidity to dry up when needed most, as non-committed market makers cease quoting during volatile periods.</p>	<p>Currently, under the existing rules of the Bourse, market makers are not necessarily IIROC members. Foreign Approved Participants of the Bourse are typically not IIROC members and currently serve as market makers on many of the Bourse's products.</p> <p>The Bourse has proposed general selection criteria in its proposed rules applicable to all market makers, including clients. These criteria include 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. The relevant criteria will be evaluated by the Bourse upon the selection of market makers and will be applied equally, whether the potential market maker be an Approved Participant, Foreign Approved Participant or client.</p> <p>All market makers, including clients, will be bound by the same market making agreement, for a given market making program, and by the same rules of the Bourse. The level of commitment to market making responsibilities will be considered as part of the selection process and will be applied consistently through obligations under the market making agreement. No market maker, regardless of status, may be forced to quote under any and all circumstances, such as periods of high volatility, for example. However, market participants should be aware of when market makers are required to quote and when they are exempted from their obligations. The Bourse will make the standard market making agreement for each program publicly available so that all market participants may understand the exact nature of the obligations of the market makers acting on the Bourse's market.</p>
--	--	---	--

			<p>The Commenter also questions regarding the existing margining framework and its ability to support the proposal. The Commenter does not see how a non-IIROC registered entity or non-exchange member can provide adequate liquidity without having access to SPAN margining. According to the Commenter, at best, these clients would be able to quote only a few selected classes or even limit themselves to specific strikes or expiries.</p>	<p>The Bourse’s understanding of the current IIROC rules is in line with the Commenter’s understanding, as expressed in its letter. Clients of IIROC members presently do not have access to SPAN margining, unless they fall under one of the currently available exception (“acceptable institutions”, “acceptable counterparties”, or “regulated entities” as defined in the General Notes and Definition of IIROC Form 1). The fact that a client of an IIROC member could become a market maker would not, in and of itself, impact how this client’s accounts are margined.</p> <p>In light of the current context, the Bourse expects the margining requirements applicable to any given client of an IIROC member to be a consideration in the decision-making process of that client to become a market maker. However, given that some types of IIROC members’ clients can be margined more favorably based on status (“acceptable institutions”, “acceptable counterparties”, or “regulated entities” as defined in the General Notes and Definition of IIROC Form 1) and given that clients of Foreign Approved Participant may have access to SPAN margining, the Bourse does consider that some clients may be willing to become market makers.</p>
			<p>If issues arise with client market making activities, the Commenter is not certain the Proposal would provide the Bourse the level of visibility necessary to appropriately identify the cause of the issue and the authority to carry out remedial action.</p>	<p>All market making activities currently take place through identified MX and CDCC sub-accounts so that at all times, the Bourse knows which activity represents market-making activity. The Regulatory Division of the Bourse also has visibility on client activity taking place through direct electronic access, on positions held above the reportable thresholds and in turn, have the power to request information about any client activity from the Approved Participants. Finally, all market makers must consent to the jurisdiction of the Regulatory Division so that the Regulatory Division has jurisdiction to take any appropriate remedial action against market makers, whether they be clients or Approved Participants.</p>
			<p>Lastly, the Commenter is also concerned that the Proposal creates an unlevelled playing field amongst the two categories of market makers. While we recognize that the Bourse proposes to impose the same obligations and standards on all market makers this does not address the fact that some clients will not have to bear comparable registration requirements to that of an IIROC Dealer.</p>	<p>Currently, there is one category of market maker and the proposal does not create two categories of market makers. All market makers will be subject to the same selection criteria, obligations, standards and enforcement action. Currently, under the existing rules of the Bourse, market makers are not necessarily IIROC members. Foreign Approved Participants of the Bourse are typically not IIROC members and currently serve as market makers on many of the Bourse’s products. The proposal will not change this fact.</p>

3.	July 11, 2016	Dealer Firm	<p>According to the Commenter, granting the Dealer’s DMA customers market maker status will likely add volume and liquidity to some of the MX traded futures and options, however, this will result in additional compliance costs for the Approved Participant by way of adding significant additional compliance costs for ongoing monitoring and testing as a result of the increased trading activity.</p>	<p>As detailed above, the Bourse confirms that the current responsibilities of the Approved Participants that grant electronic access to clients, as permitted under the rules of the Bourse, will not increase as a result of the proposal and that a client will not be approved as a market maker without the acknowledgement of the Approved Participant providing it with access. Approved Participants will never be obligated to accept that one of its clients act as a market maker through electronic access granted by that Approved Participant.</p>
			<p>The Commenter states that the proposal notes that both Approved Participants and their clients who will be approved to act as Market Makers will be held to the same contractual standards via the Market Maker Agreements, however, the fact that some clients will not have to bear comparable registration requirements to that of an IIROC Dealer is not addressed in this case.</p>	<p>As fully detailed above, currently, under the existing rules of the Bourse, market makers are not necessarily IIROC members. Foreign Approved Participants of the Bourse are typically not IIROC members and currently serve as market makers on many of the Bourse’s products. Clients and Approved Participants will be subject to the same selection criteria and obligations with respect to market making activities.</p>
			<p>The Commenter is also concerned about the impact of the Proposal on the integrity of the Canadian derivatives market. Currently, Market Makers employed with Approved Participants must complete a number of CSI and Bourse proficiency requirements to obtain licensing with IIROC and be held accountable for their trading conduct. In contrast, Electronic Trading clients are granted Bourse’s SAM IDs and access to the Canadian markets by simply completing a form as Approved Participants are held liable for their trading conduct. We would not view this as a level playing field in terms of experience and proficiency requirements from a market making perspective.</p>	<p>The Bourse refers the Commenter to the proposed selection criteria for market makers, which include, notably, the ability to meet the quoting requirements of the relevant product(s) on an electronic trading platform and experience trading similar derivatives instruments.</p>
			<p>The Commenter states that non Approved Participants serving as Market Makers would not be held to the requirement to maintain sufficient capital for their business activities which IIROC requires from its Members which could have unintended impact as activities of such Market Making firms would not be subject to regular IIROC FinOps oversight.</p>	<p>The Bourse refers the Commenter to the proposed selection criteria for market makers, which include, notably, the adequacy of capital. Currently, under the existing rules of the Bourse, market makers are not necessarily IIROC members. Foreign Approved Participants of the Bourse are typically not IIROC members and currently serve as market makers on many of the Bourse’s products. Therefore, currently, not all market makers are subject to regular IIROC FinOps oversight. The Bourse is not aware that the capital requirements of IIROC members were developed for the purposes of market making activities.</p>



			The Commenter states that non-IIROC registered and non-exchange members would also not have access to SPAN margining which is required by IIROC to ensure that the margining requirements set out by the Bourse are being met. This would limit their ability to quote only a few selected classes and not provide the ultimate benefits intended by this proposal.	The Bourse refers to the response to a comment to the same effect above.
			The Proposal notes that the MX will extend the jurisdiction of its Regulatory Division over market making clients “to ensure that practices of all market makers are subject to the surveillance, monitoring and disciplinary function of the Bourse”. It further goes on to say that the Bourse “shall be solely responsible for overseeing the performance of the market makers and their compliance with the market making agreement but that performance of specific market making obligations and compliance with the terms and conditions of the market making agreement shall not be subject to their disciplinary jurisdictions.” The above statements confirm the fact that the Approved Participants will continue to be responsible for the trading conduct of these Market Makers as the Bourse will not have full direct oversight of clients serving as market makers. However, in the interest of fairness, we believe that rules for DMA users should match the rules for the Approved Participants for routing orders to the MX.	As fully explained above, the Bourse confirms that the current responsibilities of the Approved Participants granting electronic access to clients, as permitted under the rules of the Bourse, will not increase as a result of the proposal and that a client will not be approved as a market maker without the acknowledgement of the Approved Participant providing it with access. However, the client acting as market maker must consent to the enforcement jurisdiction of the Regulatory Division.
4.	July 11, 2016	Dealer Firm	The Commenter states that quality market makers are a cornerstone to keeping a largely intermediated market like the options market running smoothly. However, the Commenter posits that quality is not simply a function of the sheer quantity of available market makers or the degree of specialization and technological sophistication typical of foreign firms which do nothing but electronic market making. According to the Commenter, stability and commitment are equally important for the long-term viability of quality market makers and for the Bourse they support.	The Bourse agrees with the Commenter that the quality of market makers and stability and commitment are paramount to effective market making. In its proposal, the Bourse proposes to apply the same selection criteria and the same commitment requirements to all market makers. The Bourse believes that where a client is able to meet the selection criteria and comply with the commitment requirements, the client should be considered for market making responsibilities. The Bourse is not proposing to lower its current standards for selecting market makers, it is proposing to open eligibility for sophisticated clients who can meet those standards. Quality market making for the benefit of all market participants is a central focus for the Bourse.

		<p>The Commenter states that it feels it is important that market making firms be regulated by a national, independent regulator. In a potential multi-market environment, self-regulation of market making partners could lead to conflicts of interest, or worse, regulatory arbitrage.</p>	<p>The Regulatory Division of the Bourse is an independent division of the Bourse, completely autonomous in accomplishing its functions and in its decision-making process. Risks of conflicts of interest are appropriately managed under the current regulatory framework applicable to the Bourse. The Bourse does not believe that the proposal attacks, alters or reduces in any way the current regulatory framework, or introduces new risks with respect to market making.</p>
		<p>The Commenter says it does certainly agree that it should be easier (and cheaper) for foreign entities to be regulated in Canada. The Commenter states that it has seen foreign participants in other financial services lines balk at entering the Canadian marketplace due to the seemingly onerous nature of the regulatory environment. But according to the Commenter, the solution isn't to simply waive these requirements – it should be to improve the process itself such that all benefit from improved efficiency.</p>	<p>Currently, under the existing rules of the Bourse, market makers are not necessarily IIROC members. Foreign Approved Participants of the Bourse are typically not IIROC members and currently serve as market makers on many of the Bourse's products. The Bourse does not share the view of the Commenter that only market participants registered in Canada should be allowed to make markets on the Bourse and is not aware that this approach is adopted by any competing exchange.</p>
		<p>The Commenter states that market maker obligations and rights are as fundamental to trading in a market as any other rules and should be treated as such – fully disclosed and disseminated to all trading members.</p> <p>In principal, the Commenter says it supports formalizing the selection process as well as the obligations (and rights) of market makers on the Bourse. However, it has reservations about making each agreement situation specific. The Bourse makes a good point in that a “one size fits all” agreement will be limiting. But negotiating a separate agreement for each product or partner will be onerous to manage and, worse, risks introducing secrecy that will not be helpful to the efficient operation of liquidity provision. The Commenter suggest a rules-based, tiered approach which would be simpler to manage and yet still provide some differentiation between product classes.</p>	<p>The Bourse shares the view of the Commenter that transparency around market making obligations is fundamental. As such, all market making obligations will be disclosed in each specific market making program, the description of which will be published by the Bourse, including detailed market making requirements.</p> <p>The Bourse does not propose to negotiate market making agreements on a case-by-case basis with market makers. Rather, market making agreements will be standardized. For any given market making program, specific terms and conditions of the program will be standardized and consistently applied. The Bourse will make its standard market making agreements publicly available on its website.</p> <p>Rule-based market making programs are not manageable because market making programs need to be adapted to changing market conditions. However, the Bourse does agree that transparency around market making is important for all market participants and the Bourse will be disclosing, through circulars and on its website, all relevant information, including details with respect to obligations of market makers for specific market making programs and standard market making agreements. The Bourse trusts that this will address the Commenter's concerns about the risks raised in its letter.</p>