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<input checked="" type="checkbox"/>	Trading – Equity and Index Derivatives	<input checked="" type="checkbox"/>	Technology
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CIRCULAR
November 27, 2013

SELF-CERTIFICATION

REGULATION RESPECTING ELECTRONIC TRADING

**AMENDMENTS TO ARTICLE 3011 — SURVEILLANCE AND COMPLIANCE
AND TO ARTICLE 6366 — ACCESS TO ELECTRONIC TRADING**

The Rules and Policies Committee and the Special Committee – Regulatory Division of Bourse de Montréal Inc. (the Bourse) have approved amendments to articles 3011 and 6366 of the Rules of the Bourse, which deal with Electronic Trading. These amendments have been self-certified in accordance with the self-certification process as established in the *Derivatives Act* (R.S.Q., chapter I-14.01) and are effective immediately.

The purpose of the amendments to articles 3011 and 6366 of the Rules of the Bourse is to ensure that their provisions comply with *Regulation 23-103 on respecting Electronic Trading* implemented by the Canadian Securities Administrators and, therefore, impose upon approved participants the obligation to establish a framework aiming at addressing concerns and risks pertaining to electronic trading.

Pursuant to paragraph 3 of article 7 of The Derivatives Regulation (chapter I-14.01, r. 1), the regulatory amendments discussed in this circular were not subjected to a public consultation.

For further information, please contact Mr. Francis Larin, Director and Legal Counsel, Regulatory Division, at 514 871-3516 or at flarin@m-x.ca.

Brian Gelfand
Vice-President and Chief Regulatory Officer

Circular no.: 187-2013

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3011 Surveillance and Compliance

(18.02.03, 30.03.10, 27.11.13)

- A) Each approved participant at the time of its approval and so long as it remains approved, must establish and maintain a system to supervise the activities of each employee and agent of the approved participant, that is reasonably designed to achieve compliance with the Rules and Policies of the Bourse and with any legislation and regulations applicable to securities and derivative instruments activities. Such a supervisory system must provide, at a minimum, the following:
- i) the establishment, maintenance and enforcement of written policies and procedures acceptable to the Bourse regarding the conduct of the type of business in which it engages and the supervision of each employee and agent of the approved participant that are reasonably designed to achieve compliance with the applicable legislation and regulation;
 - ii) procedures reasonably designed to ensure that each employee and agent of the approved participant understand their responsibilities under the written policies and procedures in subparagraph (i);
 - iii) procedures to ensure that the written policies and procedures of the approved participant are amended as appropriate within a reasonable time after changes in applicable laws, regulations, rules and policies and that such changes are communicated to all relevant personnel;
 - iv) sufficient personnel and resources to fully and properly enforce the written policies and procedures in subparagraph I);
 - v) the designation of supervisory personnel with the necessary qualifications and authority to carry out the supervisory responsibilities assigned to them;
 - vi) procedures for follow-up and review to ensure that supervisory personnel are properly executing their supervisory functions;
 - vii) the maintenance of adequate records of supervisory activity, compliance issues identified and the resolution of those issues.
- B) Notwithstanding any other provision in the regulations of the Bourse, each approved participant must comply with the Electronic Trading Rules, especially regarding the risk management and supervisory controls, policies and procedures, the authorization to set or adjust these risk management and supervisory controls, policies and procedures, as well as the use of automated order systems.
- C) For the purpose of this article, the term “Electronic Trading Rules” refers to Regulation 23-103 respecting Electronic Trading (Chapter V-1.1, r. 7.1) as well as any applicable policy statement or notice.

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- C) For the purpose of this article, the term “Electronic Trading Rules” refers to *Regulation 23-103 respecting Electronic Trading* (Chapter V-1.1, r. 7.1) as well as any applicable policy statement or notice.

6366 Access to Electronic Trading

(25.09.00, 24.09.01, 19.03.02, 03.11.04, 27.11.13)

- 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) The approved participants can authorize clients to use a computer system to route orders. In order to do so, the following conditions must be complied with:
1. Definition of clients: For the purposes of this article, a client is defined as a person having an agreement with the approved participant to route his orders to the routing system of the approved participant.
 2. Conditions for connections

An approved participant may transmit orders received electronically from a client directly to the electronic trading system of the Bourse provided that the approved participant has:

- a) obtained prior approval of the Bourse that the order routing system of the approved participant meets the following conditions:
 - i) supports compliance with the requirements of the Bourse dealing with the entry and trading of orders by all its clients who will use the order routing system (for example, the order routing system must support all valid order information that may be required);
 - ii) ensures security of access to the electronic trading system of the Bourse by having in place an internal security procedure;

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- iii) complies with specific requirements prescribed pursuant to article 6366 B) 2) of the Rules, including a facility to receive an immediate report of the entry or execution of orders; and
 - iv) enables the approved participant to employ order parameters or filters that will route orders to the approved participant (which parameters may be customized for each client).
- b) executed a standard service agreement (i.e. Order Routing Agreement) with its client providing for the following terms:
- i) the client is authorized to connect to the approved participant's order routing system;
 - ii) the client must enter orders in compliance with the requirements of the Bourse with regards to the entry and trading of orders and other applicable regulatory requirements;
 - iii) specific parameters defining the orders that may be entered by the client are provided for, including restrictions to specific securities or size of orders;
 - iv) the approved participant can reject an order for any reason;
 - v) the approved participant can change or remove an order and has the right to cancel any trade made by the client for any reason;
 - vi) the approved participant can discontinue accepting orders from a client at any time without notice;
 - vii) the approved participant agrees to train its clients with regards to the requirements of the Bourse dealing with the entry and trading of orders and other applicable requirements of the Bourse; and
 - viii) the approved participant undertakes to ensure that revisions and updates to the requirements of the Bourse relating to the entry and trading of orders are promptly communicated to its clients.
- c) complied with all other conditions prescribed by the Bourse, being:
- i) the approved participant must ensure that its clients are adequately trained in the trading rules of the Bourse, as well as the use of the order routing system. The training materials regarding the above trading rules that the approved participant proposes to use will be available to the Bourse;
 - ii) the approved participant must have the ability to receive an immediate report of the entry and execution of orders. He must have the capability of rejecting orders that do not fall within the designated parameters of authorized orders for a particular client;

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- iii) the approved participant must designate a specific person as being responsible for the order routing system. Orders executed through this routing system will be reviewed for compliance and credit purposes by such person designated by the approved participant;
- iv) the approved participant must have procedures in place to ensure that its clients use the order routing system in compliance with the requirements of the Bourse and other applicable regulatory requirements, [particularly the Electronic Trading Rules](#);
- v) the approved participant will make available for review by the Bourse, as required from time to time, copies of the Order Routing Agreements between the approved participant and its clients;
- vi) any other condition required by the Bourse in order to protect the interests of the investors, the approved participants and the Bourse;
- vii) [For the purpose of this article, the term “Electronic Trading Rules” refers to Regulation 23-103 respecting Electronic Trading \(Chapter V-1.1, r. 7.1\) as well as any applicable policy statement or notice.](#)

3. Responsibility

An approved participant who executes an agreement with a client to route orders in accordance with article 6366 B) 2) of the Rules is responsible for compliance with the requirements of the Bourse with respect to the entry and execution of orders routed to him by its clients.

Furthermore, the approved participant must provide the Bourse with prior written notification of the identity of the person designated as responsible for such compliance.

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- 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.

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2. Conditions for connections

An approved participant may transmit orders received electronically from a client directly to the electronic trading system of the Bourse provided that the approved participant has:

- a) obtained prior approval of the Bourse that the order routing system of the approved participant meets the following conditions:
 - i) supports compliance with the requirements of the Bourse dealing with the entry and trading of orders by all its clients who will use the order routing system (for example, the order routing system must support all valid order information that may be required);
 - ii) ensures security of access to the electronic trading system of the Bourse by having in place an internal security procedure;

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- iii) complies with specific requirements prescribed pursuant to article 6366 B) 2) of the Rules, including a facility to receive an immediate report of the entry or execution of orders; and
 - iv) enables the approved participant to employ order parameters or filters that will route orders to the approved participant (which parameters may be customized for each client).
- b) executed a standard service agreement (i.e. Order Routing Agreement) with its client providing for the following terms:
- i) the client is authorized to connect to the approved participant's order routing system;
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