

MONTREAL EXCHANGE - REGULATORY DIVISION

Newsletter

The Bourse de Montreal Inc. (the “Bourse”) is recognized by the Autorité des marchés financiers (the “AMF”) as an exchange and a self-regulatory organization. The Regulatory Division (the “Division”) is a separate business unit of the Bourse responsible for carrying out its regulatory functions and operations. The Division consists of three units: examinations, market analysis and investigations, and regulatory and disciplinary affairs.

The Division publishes a bi-annual newsletter to share information of a general nature on regulatory activities, and takes advantage of this opportunity to share observed best practices in regulatory compliance.

This newsletter covers the period from January 1 to June 30, 2020.

Enjoy!

Topics

Events organized by the Division

Publications of the Division

The Division’s initiatives

Profile of Approved Participants and persons

- Approved participants
- Approved persons

Regulatory activities

- Examinations
- Market analysis and investigations
- Disciplinary proceedings
- Imposition of late fees

Observed best practices with respect to Business Continuity Plan

Upcoming events organized by the Division

Events organized by the Division

- A meeting was held in Montreal on February 27, 2020 and one telephone meeting was held on May 27, 2020 with the Division's Regulatory User Group.

Publications of the Division

- **Approved Participant admissions and resignations** (circulars [012-20](#), [055-20](#), [076-20](#) and [077-20](#))
- **Position limits** (circulars [001-20](#), [013-20](#), [027-20](#), [035-20](#), [047-20](#), [048-20](#), [061-20](#), [078-20](#), [095-20](#), [103-20](#), [109-20](#), [115-20](#) and [116-20](#))
- **LOPR and the Gatekeeper portal**
 - LOPR Regulatory Requirements Guide and LOPR Portal Notification User Guide (circular [036-20](#))
 - Regulatory Division's LOPR Portal - Important Reminder (circular [104-20](#))
- **Amendments to the Rules and Policies of the Bourse**
 - Request for comment - Amendments to Article 6.208 of the Rules of the Bourse: Exchange of Futures for Related Products (circular [069-20](#))
 - Request for comments - Amendments to Part 4 of the Rules of the Bourse: Investigation Process (circular [074-20](#))
 - Request for comments - Special Committee of the Regulatory Division - Tenure Limit (circular [098-20](#))
 - Request for comments - Validity period for the training requirements for approved persons (circular [099-20](#))
 - Notice - Postponement of Self-Certification - Amendments to the Rules of Bourse de Montréal Inc. Regarding Position Limits (circular [101-20](#))
 - Self-certification - Amendments to article 6.310 (circular [105-20](#))
- **Division's Regulatory User Group** (circular [089-20](#))
- **Disciplinary Decisions**
 - Offer of settlement - Deutsche Bank Securities Inc. (circular [005-20](#))
 - Offer of settlement - Barak Capital G.T. Ltd (circular [110-20](#))
 - Offer of settlement - RBC Dominion Securities Inc. (circular [127-20](#))
- **Others**
 - Name Change of an Approved Participant - GMP Securities L.P. (circular [003-20](#))
 - Publication of the Newsletter From the Regulatory Division (circular [016-20](#))
 - Compliance Priorities and 2020 Regulatory Division Initiatives (circular [018-20](#))
 - Margin Relief for S&P/TSX Index Standard Futures ("SXF") and S&P/TSX Index Mini Futures ("SXM") Combinations (circular [019-20](#))
 - IIROC Continuing Education Credits - Bourse de Montréal Inc. Training (circular [023-20](#))
 - Hearing before the Disciplinary Committee of Bourse de Montréal Inc. - Offer of Settlement - RBC Dominion Securities Inc. (circular [030-20](#))
 - The Regulatory Division Participant Scorecard (circular [038-20](#))
 - Approved Participants Business Continuity Plan - COVID-19 (circular [041-20](#))
 - Additional Guidance to Approved Participants - COVID-19 (circular [043-20](#))
 - Late Filing Fees - Additional Reporting Delay Granted (circular [049-20](#))

- Special Committee of the Regulatory Division - Call for Nominations (circular [052-20](#))
- New Features to Facilitate Accessibility to Bourse de Montreal Inc. Rules (circular [088-20](#))
- Hearing before the Disciplinary Committee of Bourse de Montréal Inc. - Offer of Settlement - TradeLink L.L.C. (circular [097-20](#))
- Extension - Alternative Measures and Reporting Delays - Covid-19 (circular [111-20](#))

The Division's initiatives

Participant Portal

The Division launched the Participant Portal (the "Portal") in the first quarter of 2019. The Portal is a secure and user-friendly single point of contact for Approved Participants. It facilitates access to regulatory documents as well as the submission of applications, reports and notices to the Division. The paper and online forms relating to the processes listed below are no longer available on the Division's website. The Division will only process requests sent through the Portal.

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

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

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

In the course of 2020, a series of improvements will be made to these functionalities and new ones will be made available. The following functionalities are currently being worked on:

- A module to manage DEA client list;
- A Designated Representative module to submit notification of appointment or resignation, and a module to manage authorized signatories;
- An online application for firms seeking to become Approved Participants;
- A LOPR delegation request form;
- Enhancement to the file transfer tool to include new features.

Participant Scorecard

On March 6, 2020 the Division published its second version of the Regulatory Division Participant Scorecard (the "Scorecard") via the Participant portal in the "File Transfer" section. The Scorecard is one way for the Division to share its observations with Approved Participants and help them track their level of compliance with certain regulatory requirements of the Bourse. The Scorecard is published bi-annually.

Rules of the Bourse: New features

Since May 4, 2020, the Rules of the Bourse have been hosted on an interface that displays the table of contents of the Rules and allows users to directly access Parts, Chapters and Articles. Each Article of the Rules contains an "HTML" hyperlink that can be copied and used in other documents, allowing direct access to the article. A keyword search functionality is also available. The Division introduced these new functions to facilitate access to the Rules. The mandatory training and certification for traders and Approved Persons, available on the Participant Portal, have also been updated to allow direct access to the Rules.

COVID-19 Pandemic: Measures taken by the Division

Following the outbreak of the global pandemic (Covid-19) in the first quarter of 2020 the Division assessed the situation and published its first circular ([041-20](#)) on March 11, 2020. The circular highlighted the Division's expectation regarding Approved Participants' business continuity plans and addressed concerns of possible restrictions associated with invoking these plans due to Covid-19. The Division also published additional guidance relating to certain regulatory requirements (circular [043-20](#)) and granting additional reporting delays (circular [049-20](#)).

On June 18, 2020, the Division extended until September 30, 2020 (circular [111-20](#)), the period for which it will deem the alternative measures described in circular [043-20](#) as reasonable, subject to meeting the minimum requirements and the additional 30-minute delay granted in circular [049-20](#), when reporting Large Open Position Reports ("LOPR") and Exchange of Futures for Related Products ("EFRP") Transactions.

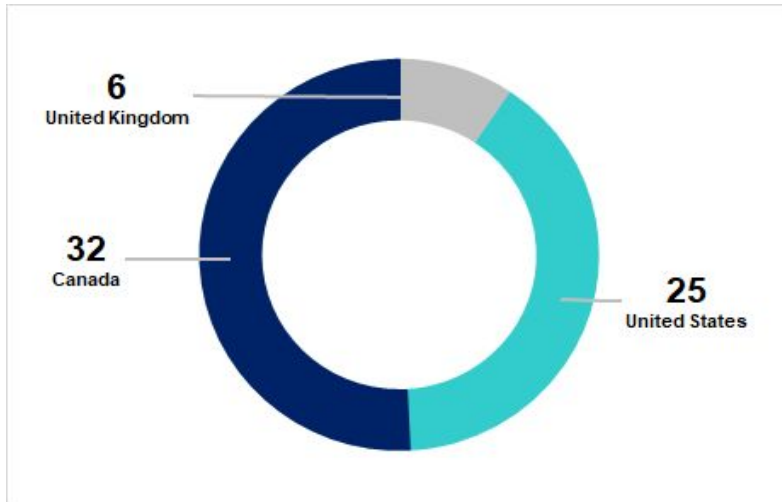
Profile of Approved Participants and Persons

Approved Participants

As at June 30, 2020, following admissions and resignations of Approved Participants, the Bourse had a total of 63 Approved Participants, distributed geographically as follows:

Figure 1

Approved Participants as at June 30, 2020

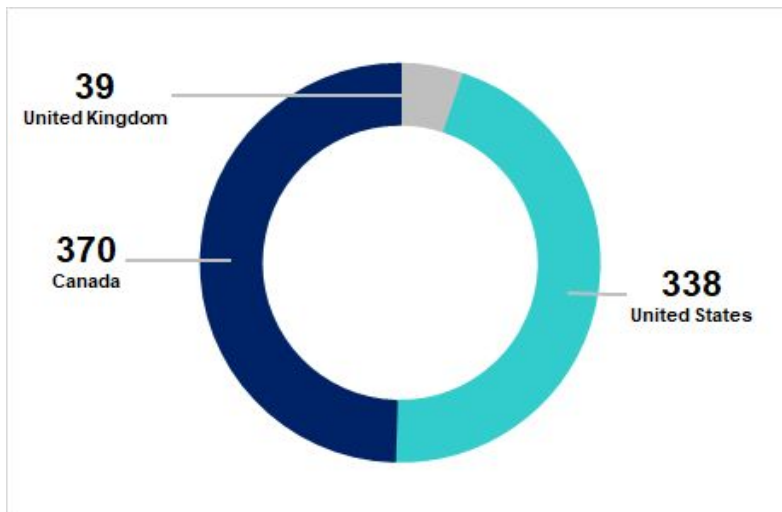


Approved persons

As at January 1, 2020, the Bourse had 761 approved persons. In the first and second quarters of 2020, the Division processed 41 new applications of approved persons as well as 55 termination notices¹. As at June 30, 2020 the Bourse had 747 approved persons, distributed geographically as follows:

Figure 2

Approved persons as at June 30, 2020



¹ Uniform Termination Notice (UTN)

Regulatory activities

Examinations

The Examinations service manages examinations of the derivatives trading of Approved Participants of the Bourse. The purpose of these examinations is to assess the compliance of Approved Participants regarding the Rules of the Bourse.

From January 1 to June 30, 2020 the Division conducted 11 examinations leading to observations. Recurring observations include:

- Outdated policy and procedure manuals (see [article 3.100](#));
- Reports of accumulated positions (see [article 6.500](#));
- Regulation respecting Electronic Trading and Direct Electronic Access to Marketplaces (see [articles 3.4 & 3.5](#) and Regulation 23-103)

In addition, during this period, the Examinations unit issued management advice relating to maintaining adequate policies and procedures. Management advice is a recommendation formulated by the Examinations unit to an Approved Participant that reflects best practices concerning a regulatory issue.

During the period from January 1 to June 30, 2020, the Division conducted a total of 11 examinations leading to findings.

Market analysis and investigations

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

An increase of 12.1% was observed in the average daily trading volume compared to the same period in 2019, for an average daily volume of 525 857 contracts for the period of January to June 2020, compared to 468 917 contracts for the same period in 2019. In the first half of the year, from January 1 to June 30, 2020, the Division monitored over 12 292 265 trades executed on the Bourse.

The Market Analysis unit is also responsible for conducting preliminary reviews of all complaints received from various sources. The Division received 3 complaints from Approved Participants in the period from January 1 to June 30, 2020 and 1 from a client.

During the period from January 1 to June 30, 2020, the Division received 3 complaints from Approved Participants and 1 from a client.

The Investigations unit may open an investigation when a potential regulatory violation has been detected during an examination or following a market analysis.

From January 1 to June 30, 2020, the Division opened 5 investigations primarily involving access to the trading system of the Bourse by employees of Approved Participants when those employees were not approved persons, and filing of reports of accumulated positions (LOPR). During the same period, the Division completed 6 investigations.

During the period from January 1 to June 30, 2020 the Division opened 5 investigations, and completed 6.

Disciplinary proceedings

Disciplinary proceedings may be initiated when, following an investigation, the Division concludes that there has been an offence under the Rules of the Bourse or to regulation (for example, [Regulation 23-103 respecting Electronic Trading and Direct Electronic Access to Marketplaces](#)).

Disciplinary decisions

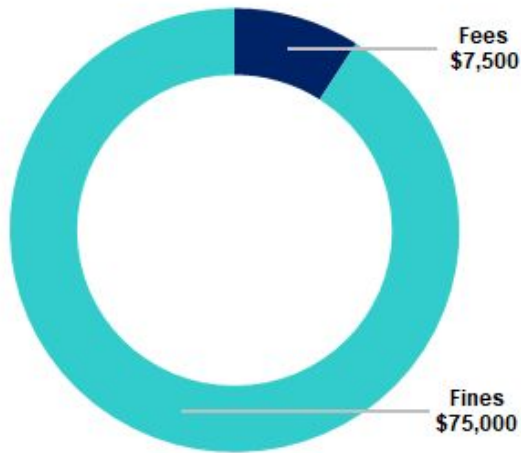
In the period from January 1 to June 30, 2020, two disciplinary decisions were rendered. The first disciplinary decision² is in relation to the failure by an Approved Participant (1) to keep recorded telephone conversations for Approved Persons in relation to the trading of derivatives listed on the Bourse and to establish and (2) to maintain a system designed to supervise the activities of each employee that is reasonably designed to achieve compliance with the Rules and Policies of the Bourse. The Disciplinary Committee of the Bourse accepted the offer of settlement negotiated between the Approved Participant and the Division. The second disciplinary decision³ is in relation to the failure by a Foreign Approved Participant, having chosen to delegate the submission of position reports to a third party, to provide all the information necessary to allow the Bourse to adequately identify and classify an account subject to a positions report, more specifically by not providing the unique identifier for said account, and to ensure that all the information transmitted to the Bourse by its delegatee was complete and accurate. As per the Rules of Bourse, the Vice-President of the Division accepted the offer of settlement.

² Decision by the Disciplinary Committee was published via circular on July 15, 2020 (Circular [127-20](#))

³ Decision was published via circular on June 17, 2020 (Circular [110-20](#))

Figure 3

Fees and Fines Imposed as Part of Disciplinary Matters



Fines for minor violations

During the period from January 1 to June 30, 2020, the Division did not use the process of imposing fines for minor violations.

In the period from January 1 to June 30, 2020, 2 disciplinary matters were settled. The fines imposed on the Approved Participants for these disciplinary matters totalled \$75,000, plus \$7,500 for the reimbursement of costs. All fines and other amounts resulting from disciplinary proceedings are deposited into the fines fund of the Division.

Imposition of late fees

The following table provides detailed information on all the fees imposed by the Division in the first and second quarters of 2020 for the late filing of documents.

Figure 4

Late Fees

| January 1 to June 30, 2020 | Occurrences | Participants | Total amount imposed |
|---|-------------|----------------|----------------------|
| Termination notice submitted more than 10 days after the termination date | 4 | 4 ⁴ | \$3,300 |
| Late reporting of corporate amendments | - | - | \$0 |
| Reports pertaining to the accumulation of positions for derivative instruments (LOPR) | - | - | \$0 |
| Bi-monthly reports on options over-the-counter options (Rule Nine) | - | - | \$0 |
| Information or documents required by the Division | 1 | 1 ⁵ | \$250 |
| Exchange of Futures for Related Products (EFRP) transactions not reported within the prescribed time limit (article 6.208 (d) of the Rules of the Bourse) | 1 | 1 ⁶ | \$100 |

Observed best practices with respect to the Business Continuity Plan

The global pandemic brought about a situation that put to test the readiness of Approved Participants with respect to their Business Continuity Plan (“BCP”), which must be established and maintained under the Rules of the Bourse ([Article 3.102](#)). A BCP should identify the necessary procedures to be undertaken during an emergency or significant business disruption. These procedures must be reasonably designed to enable Participants to stay in business in the event of a significant business disruption to meet obligations to clients and capital markets counterparts. When designing the procedures, Approved Participants must take into account the assessment of their critical business functions and required levels of operation during and following a disruption.

As this pandemic demonstrated, the BCP should cater to any type of emergency and business disruption, including unforeseen situations. Based on the communication the Division had with Approved Participants, the Division observed the following good practices:

- responsiveness of Approved Participants to the situation at hand and identifying impact on operations, fall back plans, and readiness to activate the BCP if required;
- depending on their operational models and their infrastructure, some Approved Participants were able to adapt to the situation as it evolved, for example by initiating immediate remote work of certain staff, without invoking their BCP, while others partially invoked their BCP to allow them to continue their operations;
- maintaining a communication line with the Division by identifying key personnel, including alternates, to communicate with;
- proactively providing the Division with notifications of steps being taken and identifying concerns, when appropriate.

⁴ One Canadian Approved Participant and three Foreign Approved Participants

⁵ One Foreign Approved Participant

⁶ One Canadian Approved Participant

Upcoming events organized by the Division

The Division's Regulatory User Group meetings

- October 1, 2020, conference call meeting (*due to the ongoing pandemic the Division will favor a conference call instead of meeting in person*);
- December 8, 2020, conference call meeting.

For more information:

REGULATORY DIVISION

reg.m-x.ca/en/

T: +1 514-787-6530

Toll-free within Canada and the U.S.A.: 1-800-361-5353 ext. 46530

Great Britain and France: 00 800 36 15 35 35 ext. 46530

info.mxr@tmx.com.