



CIRCULAR
January 22, 2004

**REQUIREMENT TO PROVIDE A LEVERAGE RISK
DISCLOSURE STATEMENT TO RETAIL CLIENTS**

AMENDMENTS TO ARTICLE 7452

The Special Committee – Regulatory Division of Bourse de Montréal Inc. (the “Bourse”) has approved amendments to article 7452 of the Rules of the Bourse. These amendments consist in the addition to said article of a new paragraph 7 whose intent is to integrate into the Rules of the Bourse some provisions relating to the obligation for approved participants of the Bourse to provide to their retail clients a leverage risk disclosure statement. These amendments are effective immediately.

National Instrument 33-102, “Regulation of Certain Registrant Activities”, implemented on August 1, 2001, provides for certain requirements regarding the leverage risk disclosures that must be made to clients when they make transactions using borrowed funds. The Instrument also specifies that a registrant is not required to comply with the requirement of the Instrument to provide a risk disclosure statement if this registrant is already subjected to and complies with a similar requirement pursuant to the regulations of a self-regulatory organization.

The Bourse has therefore amended its Rules by adding a new paragraph 7 to article 7452, which requires that each partner, director, officer or approved person of an approved participant provides a leverage risk disclosure statement at the time a new account is opened, when a recommendation is made to a client to purchase securities using, in whole or in part, borrowed funds or when the approved participant or one of its partners, directors, officers or approved persons becomes aware of a client’s intent to use borrowed funds to purchase securities. However, the transmission to client of a new leverage risk disclosure statement is not necessary when such a statement has already been transmitted within the last six months.

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Finally, the new regulatory provisions specify that the transmission of a leverage risk disclosure statement is not required for margin accounts that are operated in compliance with the Rules and Policies of the Bourse.

For further information, please contact Mr. Jacques Tanguay, Vice-President, Regulatory Division, at (514) 871-3518 or by e-mail at jtanguay@m-x.ca.

Joëlle Saint-Arnault
Vice-President, Legal Affairs and Secretary

Encl.

7452 Diligence as to Accounts

17.06.86, 01.08.87, 05.09.89, 15.09.89, 04.12.92, 01.04.93, 02.07.96, 09.03.99, 23.08.02, 21.11.03, 22.01.04)

- 1) Every approved participant must use diligence:
 - a) to learn and remain informed of the essential facts relative to every customer and to every order or account accepted;
 - b) to ensure that the acceptance of any order for any account is done in accordance with principles of good business practice;
 - c) to ensure, subject to paragraphs d), e) and f) hereunder, that the acceptance of any order for any account from a customer is suitable for such customer given his financial situation, his investment knowledge, his investment objectives and his risk tolerance;
 - d) to ensure, when recommending to a customer the purchase, sale, exchange or holding of any security, that the recommendation is suitable for such customer given his financial situation, his investment knowledge, his investment objectives and his risk tolerance.

However,

- e) an approved participant that has applied for and received approval from the Bourse, pursuant to Policy C-12, is not required, when accepting orders from a customer where no recommendation is provided, to make a determination that the order is suitable for such customer;
 - f) the Bourse in its discretion, shall only grant such approval where the Bourse is satisfied that the approved participant will comply with the policies and procedures outlined in Policy C-12 of the Bourse.
- 2) Every approved participant:
 - a) must appoint, in accordance with Policy C-13 of the Bourse, an ultimate designated person or, in the case of a branch office, a branch manager reporting directly to an ultimate designated person; and
 - b) where necessary to ensure continuous supervision, may appoint one or more alternate designated person;

who must be approved by the Bourse. The ultimate designated person or, in the case of a branch office, the branch manager is responsible for establishing and maintaining procedures and for supervising account opening and account activity. He must ensure that the handling of client business is within the bounds of ethical conduct, consistent with just and equitable principles of trade and not detrimental to the reputation of the Bourse or the interests or the welfare of the public or the Bourse. He must supervise activity relating to securities in accordance with Bourse requirements and policies. In the absence or incapacity of the ultimate designated person, his authority and responsibilities must be assumed by an alternate designated person.

- 3) Notwithstanding paragraphs 2) of the present article, an approved participant or a separate business unit of the approved participant is exempt from the requirement that a new account form include the

information required with regard to the suitability of transactions where the approved participant or separate business unit of an approved participant does not provide recommendations to any of its customers and has received the approval mentioned in paragraph 1 e) of the present article.

- 4) For each new account, there must be a properly completed account application form and, prior to or promptly after the completion of any transaction for such account, it must be authorized or approved:
 - a) by the designated person or his alternate, or
 - b) except in the case of discretionary and managed accounts, by the Branch Manager of the branch office where the account is opened,

and such authorization or approval must be indicated on the account application form.

- 5) Every approved participant must ensure that his registered representatives and investment representatives and other concerned personnel comply with the code of ethics and general rules of conduct for representatives as stated in the Conduct and Practices Handbook for Securities Industry Professionals published by the Canadian Securities Institute.
- 6) An approved participant must send prior to the first trade to a client who is a first time purchaser of stripped coupons or of residual debt instruments an information document approved by the securities commission having jurisdiction.
- 7)
 - a) An approved participant, partner, director, officer or approved person of an approved participant must provide to each retail client a Leverage Risk Disclosure Statement:
 - i) at the time a new account is opened,
 - ii) when a recommendation is made to a retail client to purchase securities using in whole or in part borrowed money,
 - iii) when an approved participant, partner, director, officer or approved person of the approved participant becomes aware of a retail client's intent to purchase securities using, in whole or in part, borrowed money.
 - b) No approved participant, partner, director officer or approved person of the approved participant is required to comply with sub-paragraphs a ii) and a iii), if within the six preceding months a Leverage Risk Disclosure Statement has been provided to the retail client.
 - c) The Leverage Risk Disclosure Statement must be similar to the following:

Using borrowed money to finance the purchase of securities involves greater risk than using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and to pay interest, as required by its terms, remains the same even if the value of the securities purchased declines.
 - d) The Leverage Risk Disclosure Statement is not required with respect to margin accounts operated in accordance with the Rules and Policies of the Bourse.

- 8) a) Where a member allows a client to have a direct access to the member's facilities on the floor of the Exchange to trade in options on futures contracts, on futures contracts, in options on equities and in options on bonds, the member must inform the client that all telephone conversations are recorded, and the latter must confirm in writing to the member as well as to the Exchange that it will comply with the applicable regulations, otherwise the member must not allow the client to have a direct access to its facilities on the floor.
- b) For the purposes of this paragraph 6) only, "client" means:
- i) an acceptable institution or an acceptable counterparty as defined in the Joint Regulatory Financial Questionnaire and Report;
 - ii) a broker which is a member of one of the following recognized exchanges or associations:
 - [1] American Stock Exchange (AMEX)
 - [2] Australian Stock Exchange Limited (Sydney)
 - [3] Austrian Futures & Options Exchange (OTOB)
 - [4] Belgian Futures & Options Exchange (Belfox)
 - [5] Bolsa de Mercadorias & Futuros (BM & F)
 - [6] Bourse de Bruxelles
 - [7] Madrid Stock Exchange
 - [8] Bourse de Paris
 - [9] Stockholm Stock Exchange
 - [10] Zurich Stock Exchange
 - [11] Chicago Board of Trade (CBOT)
 - [12] Chicago Board Options Exchange (CBOE)
 - [13] Chicago Mercantile Exchange (CME)
 - [14] Chicago Stock Exchange
 - [15] Deutsche Terminbörse (DTB)
 - [16] Commodity Exchange Inc. (COMEX)
 - [17] European Options Exchange (EOE)
 - [18] Fédération des Bourses de valeurs allemandes
 - [19] Finnish Options Exchange Ltd.
 - [20] Finnish Securities & Derivatives Exchange (SOM)
 - [21] Futop Market - Copenhagen Stock Exchange
 - [22] Hong Kong Futures Exchange Ltd.
 - [23] International Petroleum Exchange
 - [24] Kansas City Board of Trade
 - [25] Investment Dealers Association of Canada
 - [26] London Commodity Exchange (LCE)
 - [27] London International Financial Futures & Options Exchange (LIFFE)
 - [28] London Metal Exchange
 - [29] Marché à terme international de France (MATIF)
 - [30] Marché des options négociables de Paris (MONEP)
 - [31] MEFF Renta Fija
 - [32] MEFF Renta Variable
 - [33] Mercato Italiano Futures
 - [34] MidAmerica Commodity Exchange
 - [35] National Association of Securities Dealers (NASD)
 - [36] New York Cotton Exchange
 - [37] New York Futures Exchange

- [38] New York Mercantile Exchange
- [39] New York Stock Exchange
- [40] OM Stockholm AB
- [41] OMLX, The London Securities & Derivatives Exchange
- [42] Osaka Securities Exchange (OSE)
- [43] Oslo Stock Exchange
- [44] Pacific Stock Exchange (PSE)
- [45] Philadelphia Stock Exchange (PHLX)
- [46] Rio de Janeiro Stock Exchange
- [47] Singapore International Monetary Exchange, Ltd.
- [48] Stockholm Options Market
- [49] Swiss Options and Financial Futures Exchange (SOFFEX)
- [50] Sydney Futures Exchange
- [51] Tel-Aviv Stock Exchange Ltd.
- [52] The Alberta Stock Exchange
- [53] The South African Futures Exchange (SAFEX)
- [54] The Toronto Stock Exchange (TSE)
- [55] The Vancouver Stock Exchange (VSE)
- [56] The Boston Stock Exchange Inc.
- [57] The Stock Exchange, London
- [58] The New York Stock Exchange, Inc.
- [59] The Winnipeg Commodity Exchange
- [60] Tokyo Stock Exchange
- [61] Tokyo Futures Exchange
- [62] Tokyo International Financial Futures Exchange (TIFFE)
- [63] Toronto Futures Exchange

All provisions applicable to members extend to their related company(ies).