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CIRCULAR
February 6, 2007

**FOREIGN PENSION FUNDS QUALIFYING AS
ACCEPTABLE COUNTERPARTIES AND ACCEPTABLE INSTITUTIONS**

**AMENDMENTS TO THE GENERAL NOTES AND DEFINITIONS OF THE
“JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT” –
POLICY C-3 OF THE BOURSE**

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved amendments to the General Notes and Definitions of the Joint Regulatory Financial Questionnaire and Report (Policy C-3 of the Bourse), which defines various categories of entities for the purpose of calculating an approved participant’s risk adjusted capital. These amendments are effective immediately.

The main objective of the amendments is to allow certain foreign pension funds that are subject to a satisfactory regulatory regime to be classified as acceptable counterparties or acceptable institutions. This new classification will allow a reduction of the regulatory capital for approved participants doing business with these types of entities. Approved participants will thus be able to conduct securities lending transactions with foreign pension funds that qualify as acceptable institutions or acceptable counterparties without incurring a disproportionate impact on their regulatory capital.

For further information, please contact Mr. Vito Racanelli, Financial Analyst, Regulatory Division, at 514 871-4949, extension 339, or by e-mail at vracanelli@m-x.ca.

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

Circular no.: 022-2007
Amendments no.: 002-2007

JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT
GENERAL NOTES AND DEFINITIONS

1. Each Member shall comply in all respects with the requirements outlined in this prescribed Joint Regulatory Financial Questionnaire and Report as approved and amended from time to time by the Board of Directors of the Joint Regulatory Bodies and Canadian Investor Protection Fund.

These statements are to be prepared in accordance with generally accepted accounting principles, except as modified by the requirements of the appropriate regulatory body.

These statements and schedules are to be completed by members of the Joint Regulatory Bodies as follows:

- The Canadian Venture Exchange
- The Montreal Exchange
- The Toronto Stock Exchange
- Investment Dealers Association of Canada

Firms may have multiple memberships in the above bodies. When this is the case and the requirements of such bodies are not consistent in a specific area, the firm must adhere to the most stringent requirement. The "appropriate Joint Regulatory Body" refers to the institution that maintains the primary audit jurisdiction for the firm and its affiliates under Canadian Investor Protection Fund rules.

2. These statements and schedules should be read in conjunction with the bylaws, rules and regulations of the Joint Regulatory Bodies and Canadian Investor Protection Fund including, but not limited to, Margin Rates, Early Warning System, Segregation, Free Credit Segregation, Insurance, Concentration of Securities and Audit Requirements.
3. For purposes of these statements and schedules, the accounts of related companies as defined by the appropriate Joint Regulatory Body may be consolidated as provided by the bylaws, rules and regulations of the Joint Regulatory Bodies. If consolidation is appropriate, the names of the companies consolidated must be provided.
4. FOR THE PURPOSES OF THESE CAPITAL CALCULATIONS REPORTING ON A TRADE DATE BASIS MUST BE USED UNLESS SPECIFIED OTHERWISE IN THE INSTRUCTIONS. THIS MEANS INCLUDING IN THE FOLLOWING PRESCRIBED STATEMENTS AND SCHEDULES, ALL ASSETS AND LIABILITIES RESULTING FROM SALES AND PURCHASES OF SECURITIES ON OR BEFORE THE REPORTING DATE, EVEN THOUGH THEY MAY BE FOR NORMAL SETTLEMENT AFTER THE REPORTING DATE.
5. Firms may determine margin deficiencies for clients, brokers and dealers on either a settlement date basis or trade date basis. Firms may also determine margin deficiencies for acceptable institutions, acceptable counterparties, regulated entities and investment counselors accounts as a block on either a settlement date basis or trade date basis and the remaining clients, brokers and dealer accounts on the other basis. In each case, firms must do so for all such accounts and consistently from period to period.
6. All statements and schedules must be filed. If a schedule is not applicable, a "NIL" return must be filed.
7. Comparative figures on all statements are only required at the audit date.
8. All statements and schedules must be expressed in Canadian dollars and must be rounded to the nearest thousand.
9. Schedules should be attached showing details of any significant amounts that have not been clearly described on the attached statements and schedules.
10. **Mandatory security counts.** All securities except those held in segregation or safe-keeping shall be counted once a month, or monthly on a cyclical basis. Those held in segregation and safekeeping must be counted once in the year in addition to the count as at the year-end audit date.
11. At the year-end, enclose a list of all brokers and dealers for which a confirmation has not been obtained after two requests. Such list should include the dollar balances in such accounts, as reflected in the firm's records.
12. At the year-end, enclose a list of guarantees that have been disallowed for margin purposes as a result of the lack of confirmation based on a positive request. Such list should disclose the names of the guarantor and guaranteed account involved, as well as the amount of margin relief that was disallowed. A copy should be provided to the Member firm.
13. At the year end, enclose a list of Other Acceptable Foreign Securities Locations, the market value of the securities held at each of these locations and whether a written custodial agreement is in place. In addition, include a list of those Other Acceptable Foreign Securities Locations for which a positive confirmation has not been received at the time of filing and the amount of margin provided on these positions.

GENERAL NOTES AND DEFINITIONS (Cont'd)

DEFINITIONS:

(a) **“acceptable clearing corporations”** means the following entities:

1. Canada
The Canadian Depository for Securities Limited
Canadian Derivatives Clearing Corporation
WCE Clearing Corporation
2. United States
National Securities Clearing Corporation
Pacific Clearing Corporation
Stock Clearing Corporation of Philadelphia
Midwest Clearing Corporation
Boston Clearing Corporation
Board of Trade Clearing Corporation
Options Clearing Corporation
Chicago Mercantile Exchange Clearing Corporation
New York Commodity Exchange Clearing Corporation
3. Other Foreign
Euroclear
Cedel S.A.
International Securities Clearing Corporation

(b) **“acceptable counterparties”** means those entities with whom a Member may deal on a value for value basis, with mark to market imposed on outstanding transactions. The entities are as follows:

1. Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof. Each of the aforementioned entities must have paid up capital and surplus on the last audited balance sheet (plus such other forms of capital recognized as such in their regulatory regime as well as in this capital formula, e.g. subordinated debt) in excess of \$10 million and less than or equal to \$100 million to qualify, provided acceptable financial information with respect to such entities is available for inspection.
2. Credit and central credit unions and regional caisses populaires with paid up capital and surplus or net worth (excluding appraisal credits but including general reserves) on the last audited balance sheet in excess of \$10 million and less than or equal to \$100 million, provided acceptable financial information with respect to such entities is available for inspection.
3. Insurance companies licensed to do business in Canada or a province thereof with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$10 million and less than or equal to \$100 million, provided acceptable financial information with respect to such companies is available for inspection.
4. Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents, with populations of 50,000 and over.
5. Mutual funds subject to a satisfactory regulatory regime with total net assets in the fund in excess of \$10 million.
6. Corporations (other than regulated entities) with a minimum net worth of \$75 million on the last audited balance sheet, provided acceptable financial information with respect to such corporation is available for inspection.
7. Trusts and limited partnerships with minimum total net assets on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such trust or limited partnership is available for inspection.
8. Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, with total net assets on the last audited balance sheet in excess of \$10 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
9. Foreign banks and trust companies subject to a satisfactory regulatory regime with paid up capital and surplus on the last audited balance sheet in excess of \$15 million and less than or equal to \$150 million, provided acceptable financial information with respect to such entities is available for inspection.
10. Foreign insurance companies subject to a satisfactory regulatory regime with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$15 million, provided acceptable financial information with respect to such companies is available for inspection.
11. Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the last audited balance sheet in excess of \$15 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
12. Federal governments of foreign countries which do not qualify as a Basle Accord country.

For the purposes of this definition, a satisfactory regulatory regime will be one within Basle Accord countries.

Subsidiaries (excluding regulated entities) whose business falls in the category of any of the above enterprises and whose parent or affiliate qualifies as an acceptable counterparty may also be considered as an acceptable counterparty if the parent or affiliate provides

GENERAL NOTES AND DEFINITIONS (Cont'd)

a written unconditional irrevocable guarantee, subject to approval by the appropriate Joint Regulatory Body.

(c) **“acceptable institutions”** means those entities with which a Member is permitted to deal on an unsecured basis without capital penalty. The entities are as follows:

1. Government of Canada, the Bank of Canada and provincial governments.
2. All crown corporations, instrumentalities and agencies of the Canadian federal or provincial governments which are government guaranteed as evidenced by a written unconditional irrevocable guarantee or have a call on the consolidated revenue fund of the federal or provincial governments.
3. Canadian banks, Quebec savings banks, trust companies and loan companies licensed to do business in Canada or a province thereof. Each of the aforementioned entities must have paid up capital and surplus on the last audited balance sheet (plus such other forms of capital recognized as such in their regulatory regime as well as in this capital formula, e.g. subordinated debt) in excess of \$100 million, provided acceptable financial information with respect to such entities is available for inspection.
4. Credit and central credit unions and regional caisses populaires with paid up capital and surplus (excluding appraisal credits but including general reserves) on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such entities is available for inspection.
5. Federal governments of Basle Accord Countries.
6. Foreign banks and trust companies subject to a satisfactory regulatory regime with paid up capital and surplus on the last audited balance sheet in excess of \$150 million, provided acceptable financial information with respect to such entities is available for inspection.
7. Insurance companies licensed to do business in Canada or a province thereof with paid up capital and surplus or net worth on the last audited balance sheet in excess of \$100 million, provided acceptable financial information with respect to such companies is available for inspection.
8. Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, and with total net assets on the last audited balance sheet in excess of \$200 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.
9. Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the last audited balance sheet in excess of \$300 million, provided that in determining net assets the liability of the fund for future pension payments shall not be deducted.

For the purposes of this definition, a satisfactory regulatory regime will be one within Basle Accord countries.

Subsidiaries (other than regulated entities) whose business falls in the category of any of the above enterprises and whose parent or affiliate qualifies as an acceptable institution may also be considered as an acceptable institution if the parent or affiliate provides a written unconditional irrevocable guarantee, subject to approval by the appropriate Joint Regulatory Body.

(d) **“acceptable securities locations”** means those entities considered suitable to hold securities on behalf of a Member, for both inventory and client positions, without capital penalty, given that the locations meet the requirements outlined in the segregation bylaws, rules or regulations of the Joint Regulatory Bodies including, but not limited to, the requirement for a written custody agreement outlining the terms upon which such securities are deposited and including provisions that no use or disposition of the securities shall be made without the prior written consent of the Member and the securities can be delivered to the Member promptly on demand. The entities are as follows:

1. Depositories
 - (a) Canada
 - The Canadian Depository for Securities Limited
 - Canadian Derivatives Clearing Corporation
 - WCE Clearing Corporation
 - (b) United States
 - Depository Trust Company
 - Pacific Securities Depository Trust Company
 - Midwest Securities Trust Company
 - Stock Clearing Corporation of Philadelphia
 - Options Clearing Corporation

- (c) Other Foreign

Foreign securities depositories or clearing agencies incorporated or organized under the laws of the foreign country and operating a central system for handling securities or equivalent book-based entries in that country and subject to enabling legislation by a central government authority in the country of operation that provides for compliance and powers of enforcement over its members. The SROs will maintain and regularly update a list of those foreign depositories or clearing agencies that comply with these criteria.

GENERAL NOTES AND DEFINITIONS (Cont'd)

2. (a) Acceptable Institutions which in their normal course of business offer custodial security services; or
(b) Subsidiaries of Acceptable Institutions provided that each such subsidiary, together with the Acceptable Institution, has entered into a custodial agreement with the member containing a legally enforceable indemnity by the Acceptable Institution in favour of the Member covering all losses, claims, damages, costs and liabilities in respect of securities and other property held for the Member and its clients at the subsidiary's location.
3. Acceptable Counterparties - with respect to security positions maintained as a book entry of securities issued by the Acceptable Counterparty and for which the Acceptable Counterparty is unconditionally responsible.
4. Banks and Trust Companies otherwise classified as Acceptable Counterparties - with respect to securities for which they act as transfer agent and for which custody services are not being provided (in such case, a written custody agreement is not required).
5. Mutual Funds or their Agents - with respect to security positions maintained as a book entry of securities issued by the mutual fund and for which the mutual fund is unconditionally responsible.
6. Regulated entities.
7. Foreign institutions and securities dealers that satisfy the following criteria:
 - (a) the paid-up capital and surplus according to its most recent audited balance sheet is in excess of Cdn. \$150 million as evidenced by the audited financial statements of such entity;
 - (b) in respect of which a foreign custodian certificate has been completed and signed in the prescribed form by the Member's board of directors or authorized committee thereof;provided that:
 - (c) a formal application in respect of each such foreign location is made by the Member to the relevant joint regulatory authority in the form of a letter enclosing the financial statements and certificate described above; and
 - (d) the Member reviews each such foreign location annually and files a foreign custodian certificate with the appropriate joint regulatory authority annually.and such other locations which have been approved as acceptable securities locations by the Joint Regulatory Body having prime jurisdiction over the Member.
- (e) **"Basle Accord Countries"** means those countries that are members of the Basle Accord and those countries that have adopted the banking and supervisory rules set out in the Basle Accord. [The Basle Accord, which includes the regulating authorities of major industrial countries acting under the auspices of the Bank for International Settlements (B.I.S.), has developed definitions and guidelines that have become accepted standards for capital adequacy.] A list of current Basle Accord countries is included in the most recent list of Foreign Acceptable Institutions and Foreign Acceptable Counterparties.
- (f) **"market value of securities"** means:
 1. for listed securities, the last bid price of a long security and, correspondingly, the last ask price of a short security, as shown on the exchange quotation sheets as of the close of business on the relevant date or last trading date prior to the relevant date, as the case may be, subject to an appropriate adjustment where an unusually large or unusually small quantity of securities is being valued. If not available, the last sale price of a board lot may be used. Where not readily marketable, no market value shall be assigned.
 2. for unlisted and debt securities, a value determined as reasonable from published market reports or inter-dealer quotation sheets on the relevant date or last trading day prior to the relevant date, or based on a reasonable yield rate. Where not readily marketable, no market value shall be assigned.
 3. for commodity futures contracts, the settlement price on the relevant date or last trading day prior to the relevant date.
 4. for money market fixed date repurchases (no borrower call feature), the market price is the price determined by applying the current yield for the security to the term of maturity from the repurchase date. This will permit calculation of any profit or loss based on the market conditions at the reporting date. Exposure due to future changes in market conditions is covered by the margin rate.
 5. for money market open repurchases (no borrower call feature), prices are to be determined as of the reporting date or the date the commitment first becomes open, whichever is the later. Market price is to be determined as in 4. and commitment price is to be determined in the same manner using the yield stated in the repurchase commitment.
 6. for money market repurchases with borrower call features, the market price is the borrower call price.
- (g) **"regulated entities"** means those entities with whom a Member may deal on a value for value basis, with mark to market imposed on outstanding transactions. The entities are participating institutions in the Canadian Investor Protection Fund or members of recognized exchanges and associations. For the purposes of this definition recognized exchanges and associations mean those entities that meet the following criteria:
 1. the exchange or association maintains or is a member of an investor protection regime equivalent to the Canadian Investor Protection Fund;
 2. the exchange or association requires the segregation by its members of customers' fully paid for securities;

GENERAL NOTES AND DEFINITIONS (Cont'd)

3. the exchange or association rules set out specific methodologies for the segregation of, or reserve for, customer credit balances;
4. the exchange or association has established rules regarding member firm and customer account margining;
5. the exchange or association is subject to the regulatory oversight of a government agency or a self-regulatory organization under a government agency which conducts regular examinations of its members and monitors member's regulatory capital on an ongoing basis; and
6. the exchange or association requires regular regulatory financial reporting by its members.

A list of current recognized exchanges and associations is included in the most recent list of Foreign Acceptable Institutions and Foreign Acceptable Counterparties.

- (h) **“settlement date - extended”** shall mean a transaction (other than a mutual fund security redemption) in respect of which the arranged settlement date is a date after regular settlement date.
- (i) **“settlement date - regular”** means the settlement date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs, including foreign jurisdictions. For margin purposes, if such settlement date exceeds 15 business days past trade date, settlement date will be deemed to be 15 business days past trade date. In the case of **new issue trades**, regular settlement date means the contracted settlement date as specified for that issue.