

<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**  
March 13, 2008

## **REQUEST FOR COMMENTS**

### **RULES OF BOURSE DE MONTRÉAL INC. REGARDING THE REGULATORY DIVISION AND THE SPECIAL COMMITTEE – REGULATORY DIVISION**

#### **AMENDMENTS TO ARTICLES 1, 3, 5, 6, 8 AND 9 AND ABROGATION OF ARTICLE 10 OF THE RULES REGARDING THE SPECIAL COMMITTEE – REGULATORY DIVISION**

#### **AMENDMENTS TO ARTICLES 1, 3 AND 6 OF THE RULES REGARDING THE REGULATORY DIVISION**

#### **Summary**

The Rules and Policies Committee of Bourse de Montréal Inc. (the Bourse) has approved amendments to articles 1, 3, 5, 6, 8 and 9 and abrogation of article 10 of the Rules regarding the Special Committee – Regulatory Division, and to articles 1, 3 and 6 of the Rules regarding the Regulatory Division. The purpose of these amendments is to reflect the fact that the Bourse no longer carries on member regulation activities since their transfer to the Investment Dealers Association of Canada (IDA) as of January 2005. The proposed amendments are aimed also at updating the Rules regarding the Special Committee – Regulatory Division and the Rules regarding the Regulatory Division so that they reflect more adequately organizational and regulatory changes that have occurred in the recent years such as, for example, the creation of the Autorité des marchés financiers and the updating of certain rules of the Bourse.

#### **Process for Changes to the Rules**

Bourse de Montréal Inc. is recognized as a self-regulatory organization (SRO) by the Autorité des marchés financiers (the Autorité). In accordance with this recognition, the Bourse carries on activities as an exchange and as a SRO in Québec. In its SRO capacity, the Bourse assumes market regulation and supervision responsibilities of its approved participants. The responsibility for regulating the market and the approved participants of the Bourse comes under the Regulatory Division of the Bourse (the Division). The Division carries on its activities as a distinct business unit separate from the other activities of the Bourse.

Circular no.: 038-2008

The Division is under the authority of a Special Committee appointed by the Board of Directors of the Bourse. The Special Committee is empowered to recommend to the Board of Directors the approval or amendment of some aspects of the Rules and Policies of the Bourse governing approved participants, among which, the Rules and Policies relating to margin and capital requirements. The Board of Directors has delegated to the Rules and Policies Committee of the Bourse its powers to approve or amend these Rules and Policies with recommendation from the Special Committee. These changes are submitted to the Autorité for approval.

Comments on the proposed amendments to articles 1, 3, 5, 6, 8 and 9 and abrogation of article 10 of the Rules regarding the Special Committee – Regulatory Division, and to articles 1, 3 and 6 of the Rules regarding the Regulatory Division must be submitted within 30 days following the date of publication of the present notice in the bulletin of the Autorité. Please submit your comments to:

*Ms. Joëlle Saint-Arnault  
Vice-President, Legal Affairs and Secretary  
Bourse de Montréal Inc.  
Tour de la Bourse  
P.O. Box 61, 800 Victoria Square  
Montréal, Quebec H4Z 1A9  
E-mail: [legal@m-x.ca](mailto:legal@m-x.ca)*

A copy of these comments shall also be forwarded to the Autorité to:

*Ms. Anne-Marie Beaudoin  
Director – Secretariat of L'Autorité  
Autorité des marchés financiers  
800 Victoria Square, 22<sup>nd</sup> Floor  
P.O. Box 246, Tour de la Bourse  
Montréal (Quebec) H4Z 1G3  
E-mail: [consultation-en-cours@lautorite.qc.ca](mailto:consultation-en-cours@lautorite.qc.ca)*

## **Appendices**

For your information, you will find in appendices an analysis document of the proposed rule amendments as well as the proposed regulatory text. The implementation date of the proposed amendments will be determined, if applicable, with the other Canadian self-regulatory organizations following approval by the "Autorité des marchés financiers".



**RULES OF BOURSE DE MONTRÉAL INC.  
REGARDING THE REGULATORY  
DIVISION AND THE SPECIAL  
COMMITTEE – REGULATORY DIVISION**

**— AMENDMENTS TO ARTICLES 1, 3,  
5, 6, 8 AND 9 AND ABROGATION  
OF ARTICLE 10 OF THE RULES  
REGARDING THE SPECIAL  
COMMITTEE – REGULATORY  
DIVISION**

**— AMENDMENTS TO ARTICLES 1, 3  
AND 6 OF THE RULES REGARDING  
THE REGULATORY DIVISION**

**I SUMMARY**

The purpose of the Rules regarding the Special Committee – Regulatory Division is, among other things, to establish and describe the composition of this Committee and its main powers. In the same manner, the Rules regarding the Regulatory Division describe the main functions of the Regulatory Division of the Bourse (the Division) and its administrative structure.

**II ANALYSIS**

**A) Current Rules**

**1) Rules regarding the Special  
Committee – Regulatory Division**

The articles of the Rules regarding the Special Committee that the Bourse is proposing to amend are the following ones :

Article 1-	Definitions
Article 3	Composition of the Special Committee

Article 5	Quorum
Article 6	Powers
Article 8	Decisions
Article 9	Consequential Amendments
Article 10	Transitional

**2) Rules regarding the Regulatory  
Division**

The articles of the Rules regarding the Regulatory Division that the Bourse proposes to amend are the following ones :

Article 1	Definitions
Article 3	Duties
Article 6	Administrative Structure

**B) The Issue**

Following the transfer by the Bourse, as of January 1, 2005, of its member regulation responsibilities to the Investment Dealers Association of Canada (IDA), some parts of article 6 of the Rules regarding the Special Committee – Regulatory Division and of article 3 of the Rules regarding the Regulatory Division have become obsolete.

The Bourse also wishes to update some definitions and references contained in these Rules.

**C) Detailed Analysis**

**1) Rules regarding the Special  
Committee – Regulatory Division**

The Bourse proposes that the following amendments be made to the Rules regarding the Special Committee – Regulatory Division.

Firstly, it is proposed to withdraw from article 1 (Definitions) the definition of the term “Commission” and to replace, in paragraph 6.1 of article 6 (Powers) the reference to the *Commission des valeurs mobilières du Québec* by a reference to the *Autorité des marchés financiers* (AMF) and, in article 9 (Consequential amendments), by a reference to the *Bureau de décision et de révision en valeurs mobilières* (BDRVM), the organization that is

## APPENDIX A

empowered to hear requests for the revision of decisions rendered by self-regulatory organizations such as the Bourse. Also, since the Rules regarding the Special Committee – Regulatory Division only refer once to the AMF and to the BRDVM, it has not been deemed necessary to replace the definition of the term “Commission” by new definitions for the terms “AMF” and “BRDVM”,

The Bourse also proposes to modify the definition of the term “Independent Member” that is found in article 1 (Definitions) of the Rules regarding the Special Committee – Regulatory Division by including therein the same independence criteria as those that are applicable to the members of the Board of Directors of the Bourse. In the “*Application by Montréal Exchange Inc. for Amendment to Recognition as a Self-Regulatory Organization and Authorization to Carry on Exchange Activities*” submitted to the AMF by the Bourse on January 31, 2008 in connection with the proposed combination of the Bourse and TSX Group<sup>1</sup>, describes these criteria in its Appendix B.

For the sake of uniformity, the Bourse also proposes to replace the definition of the term “approved participant” that is found in article 1 (Definitions) of the Rules regarding the Special Committee – Regulatory Division by the one which appears in article 1102 of Rule One of the Bourse.

The Bourse also proposes, for what regards the definitions contained in article 1 of the Rules regarding the Special Committee – Regulatory Division, to withdraw the definition of the term “Regulation”. This withdrawal is justified by the fact that following the actualization of articles 6 (Powers) and 9 (Consequential amendments) of the Rules regarding the Special Committee, these articles will no longer refer to the regulations, but to the Rules of the Bourse.

The Bourse also wishes to amend articles 3 (Composition) and 5 (Quorum) of the Rules regarding the Special Committee Regulatory Division so that the text of these articles reflects the provisions of article 69 of the Act regarding the Autorité des marchés financiers (the Act). Pursuant to this article of the Act, the decisional powers relating to the oversight of activities governed by the Quebec Securities Act (Chapter V-1.1) must be exercised by persons who reside in Québec. The activities of the Bourse and of its Regulatory Division being effectively under the scope of the Securities Act, the Bourse is therefore required to comply with the residency requirement provided by the Act for what regards both the composition of the Special Committee and its quorum. The Bourse therefore proposes to amend articles 3 and 5 of the Rules regarding the Special Committee – Regulatory Division in order to incorporate therein a requirement that a majority of the members of the Special Committee – Regulatory Division must be Quebec residents and that the majority of the members of the members of the Special Committee – Regulatory Division composing the quorum must also be Quebec residents. The Bourse also proposes to amend article 5 in order to add to this article a precision to the effect that the quorum must be composed of a majority of the members “in office”.

Furthermore, the Bourse proposes to amend article 6 (Powers) of the Rules regarding the Special Committee – Regulatory Division in order to actualize this article so that it reflects the fact that the Bourse no longer carries on member regulation activities following the transfer of these responsibilities to the IDA on January 1, 2005. The proposed amendments will allow, among other things, to reflect the following :

- the Bourse no longer issues restricted trading permits since it converted to electronic trading (paragraphs 6.2.1 and 6.4);
- the Bourse no longer approves representatives, directors and officers of approved participants, these approvals now being under the responsibility of the IDA (paragraph 6.2.2);

---

<sup>1</sup> This application was published by the AMF on its website and is available at [http://www.lautorite.qc.ca/userfiles/File/Consultations/Avis\\_BM\\_ang.pdf](http://www.lautorite.qc.ca/userfiles/File/Consultations/Avis_BM_ang.pdf).

## APPENDIX A

- the Bourse, since it demutualized in October 2000 and since it converted to electronic trading no longer issues trading permits to its approved participants (paragraph 6.7). These trading permits allowed the Bourse to control and manage access to the trading floor when the Bourse market was an outcry market. The conversion to electronic trading has made this practice useless, the access to the electronic trading system of the Bourse now being managed in another fashion; and
- since it transferred its member regulation activities to the IDA in January 2005, the Bourse no longer exercises AMF delegated powers.

The addition of a new paragraph 6.12 is also proposed in order to specify that the Special Committee – Regulatory Division has also the power to approve or reject a settlement offer made in connection with a disciplinary file. This power is exercised pursuant to the provisions of article 4203 of the Rules of the Bourse.

For what regards article 8 (Decisions and Minutes) of the Rules regarding the Special Committee – Regulatory Division, the Bourse proposes to amend this article by withdrawing from its last paragraph the reference to the position of “Senior Executive Vice-President, Markets and Corporate Affairs”. This position no longer exists at the Bourse. It is also proposed to replace the term “General Counsel and Secretary” by “Vice-President, Legal Affairs and Secretary” to reflect the current position names used by the Bourse.

For what regards article 9 (Consequential Amendments) of the Rules regarding the Special Committee – Regulatory Division, the Bourse wishes to abrogate paragraphs 9.1 and 9.2 of this article.

Paragraph 9.1 has become obsolete since the Bourse updated its Rules Three and Four in March 2005. In this update, all references to the former Governing Committee were replaced by

references to the Special Committee – Regulatory Division.

The same thing applies to paragraph 9.2, all the references to the Executive Committee that were found in Rule Four having been replaced by references to the Special Committee – Regulatory Division when this Rule was updated.

Finally, the Bourse proposes to abrogate article 10 (Transitional) of the Rules regarding the Special Committee – Regulatory Division. When, in November 2000, the Special Committee – Regulatory Division was created and the related rules were implemented, some files were already ongoing with the former Governing Committee of the Bourse (which became the Board of Directors of the Bourse following its demutualization in October 2000). The purpose of article 10 of the Rules regarding the Special Committee – Regulatory Division was to ensure that current files already ongoing with the former Governing Committee would remain under its responsibility until their completion rather than being transferred to the Special Committee – Regulatory Division. Since there is no longer any such file outstanding, article 10 is now obsolete and the Bourse considers that it should be abrogated.

### **2) Rules regarding the Regulatory Division**

It is proposed that the following amendments be made to the Rules regarding the Regulatory Division.

The first amendment proposed is to withdraw the definition of the term “Commission” which was referring to the Commission des valeurs mobilières du Québec, this organization having been replaced by the Autorité des marchés financiers (AMF). However, the Bourse considers that it is not necessary to replace the definition to be withdrawn by a new definition for the AMF since the various other amendments that are proposed to the Rules regarding the Regulatory Division will be such that these Rules will no longer contain any references to the AMF.

## APPENDIX A

For the sake of uniformity, the Bourse also proposes to replace the definition of “approved participants » that is found in article 1 (Definitions) of the Rules regarding the Regulatory Division by the one which appears in article 1102 of Rule One of the Bourse.

In addition, the Bourse wishes to amend article 3 (Duties) of the Rules regarding the Regulatory Division so, among other things, that this article reflects in a more adequate manner the current activities of the Division and the fact that the Bourse no longer carries on member regulation activities following the transfer of these responsibilities to the IDA on January 1, 2005.

For what regards article 6 (Administrative Structure) of the Rules regarding the Regulatory Division, the Bourse proposes to add a new paragraph 6.3 providing that the vice-president and all other managers of the Regulatory Division shall reside in Quebec in order to comply with the requirements of article 69 of the Act regarding the Autorité des marchés financiers as explained in paragraph 1) of this Section C) regarding the proposed amendments to articles 3 and 5 of the Rules regarding the Special Committee – Regulatory Division.

The Bourse further proposes to amend paragraph 6.6 of this article by withdrawing therefrom the reference to the position of “Senior Executive Vice-President, Markets and Corporate Affairs”. This position no longer exists at the Bourse and since its disappearance in July 2005, the Vice-President of the regulatory Division reports, for administrative matters, to the Executive Vice-President and Chief Financial Officer. However, since the position terminology and the organizational structure of the Bourse may change from time to time, the Bourse proposes that the wording of paragraph 6.6 be written in a more general manner and that instead of referring to a specific position, it rather refers to a “person designated by the Bourse”.

Finally, it is proposed to include in article 6 of the Rules regarding the Regulatory Division provisions regarding the amounts cashed in by the Division following a disciplinary process. At a meeting held in January 2007, the members

of the Special Committee adopted a resolution which provided that:

- no amount cashed in by the Division since its creation and that will be cashed in in the future following disciplinary measures will be distributed to approved participants of the Bourse;
- any amount cashed in following disciplinary measures will first be used to offset direct expenses incurred in connection with such measures; and
- the net excess of the amounts so cashed in may be applied by the Division with the prior approval of the Special Committee – Regulatory Division, to any use deemed acceptable.

To this effect, the Bourse therefore proposes to amend paragraph 6.8 and to add a new paragraph 6.9 to this article.

### **D) Objectives**

The objective of the proposed amendments in this analysis is, among other things, to reflect the fact that the Bourse no longer carries on member regulation activities since their transfer to the IDA as of January 1, 2005. The proposed amendments also intend to update the Rules regarding the Special Committee – Regulatory Division and the Rules regarding the Regulatory Division so that they reflect more adequately organizational and regulatory changes that have occurred in the recent years such as, for example, the creation of the AMF, the updating of certain rules of the Bourse and the conversion of the Bourse’s market from an open outcry market to a fully electronic trading system.

### **E) Consequences of proposed amendments**

The amendments proposed in this analysis will have no significant impact on approved participants, their clients or the public in general. They will rather allow to update the Rules of the Bourse given the transfer of member regulation activities to the IDA in January 2005 and various other changes that have occurred since the creation of the

Regulatory Division and of its Special Committee.

### F) Other alternatives considered

No other alternatives were considered.

### G) Impact of proposed amendments on systems

The Bourse considers that the regulatory amendments proposed in this analysis will have no impact on systems for approved participants, their approved persons, their clients or the public in general.

### H) Interest of financial markets

The Bourse considers that the amendments proposed in this analysis will not affect the interests of financial markets.

### I) Public Interest

Since the main purpose of the amendments proposed in this analysis is to update the Rules regarding the Special Committee – Regulatory Division and the Rules regarding the Regulatory Division following the transfer of member regulation activities to the IDA in January 2005 and various other changes, the Bourse considers that these amendments are of public interest.

## III COMMENTS

### A) Efficiency

As already indicated above, the main objective of the regulatory amendments proposed in this analysis is to update, simplify and clarify the Rules regarding the Special Committee – Regulatory Division and the Rules regarding the Regulatory Division so that these Rules reflect more adequately the context in which the Regulatory Division and its Special Committee operate.

### B) Process

The first step of the approval process for the regulatory amendments proposed in the present

document consists in having the proposed amendments approved by the Special Committee – Regulatory Division of the Bourse. Once the approval of the Special Committee has been obtained, the proposed amendments are subsequently submitted to the Rules and Policies Committee of the Bourse for further approval. Once the approval process is completed, the proposed amendments, including this document, are simultaneously published by the Bourse for a 30-day comment period and submitted to the Autorité des marchés financiers for approval and to the Ontario Securities Commission for information.

## IV SOURCES

- Rules of Bourse de Montréal Inc. regarding the Special Committee – Regulatory Division
- Rules of Bourse de Montréal Inc. regarding the Regulatory Division
- Decision no. 2004-PDG-0223 issued by the Autorité des marchés financiers (AMF) on December 30, 2004 and published in the AMF weekly bulletin on January 7, 2005 (vol. 02, no. 1)
- Act regarding the Autorité des marchés financiers (L.R.Q., Chapter A-33.2)
- Application by Montréal Exchange Inc. for Amendment to Recognition as a Self-Regulatory Organization and Authorization to Carry on Exchange Activities – Autorité des marchés financiers website, [http://www.lautorite.qc.ca/userfiles/File/Consultations/Avis\\_BM\\_ang.pdf](http://www.lautorite.qc.ca/userfiles/File/Consultations/Avis_BM_ang.pdf)

**Bourse de Montréal Inc./ Montréal Exchange Inc.**

**Board of Directors Independence Standards**

The Board of Directors has adopted these standards to determine whether individual members of the Board are independent from Bourse de Montréal Inc./Montréal Exchange Inc. (the “Bourse”). These standards are derived from the rules of the Autorité des marchés financiers and the Canadian Securities Administrators and the Authorization and Recognition of the Bourse. The Board will update these standards from time to time as required. These standards were reviewed and approved by the Board on [•].

**1. Composition**

At least fifty per cent (50%) of members of the Board shall be independent within the meaning of and as required by Multilateral Instrument 52-110—Audit Committees (“MI 52-110”).

**2. Determination by Board**

A director is considered independent only where the Board affirmatively determines that the director has no material relationship with the Bourse.<sup>1</sup> A “material relationship” is a relationship which could, in the view of the Board, reasonably interfere with the exercise of a director’s independent judgement.<sup>2</sup> The Board shall make a determination concerning the independence of a director each year at the time the Board is preparing for its annual meeting. Where a director joins the Board mid-year, the Board will make a determination at that time.

**3. General Independence Standards**

In determining whether a director is independent, the following individuals are considered to have a material relationship with the Bourse and are therefore considered NOT to be independent:

- (a) an individual who is, or has been within the last three years, an employee or executive officer<sup>3</sup> of the Bourse or any of its affiliates;
- (b) an individual whose immediate family member<sup>4</sup> is, or has been within the last three years, an executive officer of the Bourse or any of its affiliates (past or present employment of the individual or immediate family member, on a part-time

---

<sup>1</sup> MI 52-110, section 1.4(1).

<sup>2</sup> MI 52-110, section 1.4(2).

<sup>3</sup> “Executive officer” means a chair, vice-chair, president, any vice-president in charge of a principal business unit, division or function (including sales, finance or production), any officer of the company or its subsidiaries who performs a policy-making function, or any other individual who performs a policy-making function.

<sup>4</sup> “Immediate family member” means an individual’s spouse, parent, child, sibling, mother or father-in-law, son or daughter-in-law, brother or sister-in-law, and anyone (other than an employee of the individual or the individual’s immediate family member) who shares the individual’s home.



basis, as the chair or vice-chair of the board or any board committee does not disqualify the individual from being independent);

- (c) an individual who:
  - (i) is a partner of a firm that is the internal or external auditor of the Bourse or any of its affiliates,
  - (ii) is an employee of that firm, or
  - (iii) was within the last three years a partner or employee of that firm and personally worked on the audit of the Bourse or any of its affiliates within that time;
- (d) an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual:
  - (i) is a partner of a firm that is the internal or external auditor of the Bourse or any of its affiliates,
  - (ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or
  - (iii) was within the last three years a partner or employee of that firm and personally worked on the audit of the Bourse or any of its affiliates within that time;
- (e) an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the current executive officers of the Bourse or its affiliates serves or served at that same time on the entity's compensation committee; and
- (f) an individual who received, or whose immediate family member who is employed as an executive officer of the Bourse or any of its affiliates received, more than \$75,000 in direct compensation from the Bourse or any of its affiliates during any 12 month period within the last three years (other than director or board committee fees and retirement plan payments or other deferred compensation for prior service, provided the compensation is not contingent in any way on continued service).

#### **4. Additional Bourse Independence Standards**

In determining whether a director is independent, the following individuals are considered to have a material relationship with the Bourse and are therefore considered NOT to be independent:

- (a) an individual who is an employee, associate (within the meaning of the *Quebec Securities Act*), or executive officer of an entity that is an Approved Participant or Foreign Approved Participant<sup>5</sup>; and
- (b) an individual who is an employee, associate (within the meaning of the *Quebec Securities Act*), or executive officer of an entity that has an Approved Participant or Foreign Approved Participant as a significant affiliate<sup>6</sup>, who is responsible for or is actively or significantly engaged in the day-to-day operations or activities of the Approved Participant or Foreign Approved Participant.

## **5. Determination by the Board and Notice to the Autorité des marchés financiers**

- (a) The Board may determine that an individual who is considered to have a material relationship under Section 4 is nonetheless independent, if the Board is satisfied that the material relationship under Section 4 will not, in the view of the Board, reasonably interfere with the exercise of the individual's independent judgment.
- (b) If the Board makes the determination referred to in clause 5(a), TSX Group must disclose in a written statement in its management information circular delivered to shareholders in connection with its annual meeting of shareholders:
  - (i) the nature of the relationship of the individual with the Bourse; and
  - (ii) the explanation of the Board's determination as to why the individual should be considered independent.
- (c) The Bourse will notify the Executive Vice-President of the Autorité des marchés financiers in writing of the Board's intention to make the determination referred to in clause 5(a) as soon as practicable, and in any event no less than 15 business days before the written statement in clause 5(b) is made.
- (d) Notwithstanding the provisions in clauses 5(a) to (c), if a member of the Joint Audit Committee or a member of the Special Committee – Regulatory Division is considered not to be independent for purposes of sections 1 to 4, he or she cannot be determined to be independent under section 5.

---

<sup>5</sup> “Approved Participant” and “Foreign Approved Participant” are defined in Rule 1102 of the Regulations of the Bourse.

<sup>6</sup> An Approved Participant or Foreign Approved Participant is a “significant affiliate” of another entity if the Approved Participant or Foreign Approved Participant is an affiliate of that entity (as defined in the *Quebec Securities Act*) and if the annual revenues of the Approved Participant or Foreign Approved Participant for its most recently completed fiscal year represent more than 10% of the consolidated revenues of its group parent.

**RULES REGARDING THE  
SPECIAL COMMITTEE - REGULATORY DIVISION**

**1. Definitions**

(24.11.00, 28.08.03, 00.00.08)

In these Rules:

“Approved ~~P~~participant” shall mean ~~any person to whom the Bourse has issued a trading permit an approved participant of the Bourse, whose name is duly recorded as such on the register referred to in article 3010 of the Rules of the Bourse and who has been approved by the Bourse pursuant to its Rules for the purpose of trading products listed on the Bourse;~~

“Board” shall mean the Board of Directors of the Bourse;

“Bourse” shall mean Bourse de Montréal Inc.;

~~“Commission” shall mean the *Commission des valeurs mobilières du Québec*;~~

“Independent ~~M~~member” shall mean a physical person who is a member of the Special Committee ~~of the Bourse~~ and who conforms to the board of directors independence standards of the Bourse. ~~is not:~~

- ~~i) an Approved Participant or a Restricted Trading Permit Holder of the Bourse or a physical person related to them;~~
- ~~ii) an officer or an employee of the Bourse or one of its affiliates;~~
- ~~iii) a shareholder, who owns, directly or indirectly, more than ten per cent (10%) of the voting shares of the Bourse;~~
- ~~iv) a person associated to a person mentioned in paragraphs i), ii) or iii) according to the definition of “associate” in the Québec Securities Act.~~

“Special Committee” shall mean the Special Committee – Regulatory Division appointed hereunder by the Board;

~~“Regulation” shall mean the By laws, Rules and Policies of the Montreal Exchange which were re-adopted by the Board by its resolutions dated October 1, 2000, as Rules and Policies of the Bourse;~~

“Regulatory Division” shall mean the Regulatory Division of the Bourse established by the Board;

“Restricted ~~t~~Trading ~~p~~Permit ~~H~~holder” shall mean the holder of a permit to trade specific listed products issued to a non-~~A~~approved ~~P~~participant pursuant to articles 3951 and following of ~~Rule~~~~By-law~~ Three of the ~~Bourse~~~~Montreal Exchange~~ which were re-adopted, by resolutions of the Board dated October 1, 2000, as forming part of the Rules and Policies of the Bourse.

**2. Binding effect**

(24.11.00, 00.00.08)

These Rules regarding the Special Committee shall be binding on all Approved Pparticipants, on the directors, officers and employees of Approved Pparticipants and on rRestricted tTrading Ppermit Holders.

**3. Composition of the Special Committee**

(24.11.00, 20.10.04, 00.00.08)

The Special Committee shall consist of a majority of Independent Members. Furthermore, the majority of Special Committee members must be Quebec residents.

**4. Appointment**

(24.11.00, 00.00.08)

The members of the Special Committee shall be appointed by resolution of the Board.—~~Each appointment shall be~~ for a term of two years. and~~Such~~ appointment may be renewed at the discretion of the Board. A member of the Special Committee whose term has expired shall remain in office as long as necessary to permit the completion of any matter on which such member was sitting prior to the expiry of the term.

**5. Quorum**

(24.11.00, 20.10.04, 00.00.08)

The quorum at meetings shall be constituted of a majority of members in office of the Special Committee attending in person, by telephone or by videoconference. The majority of members so attending must be composed of Independent Members and be Quebec residents.

**6. Powers**

(24.11.00, 00.00.08)

The Special Committee shall have the following powers:

6.1 ~~the overall supervision supervise~~ and control ~~of~~ the activities of the Regulatory Division, subject to the final authority of the Board and the Autorité des marchés financiers~~Commission~~;

6.2 ~~the adoption or amendment of r~~Rules and ~~p~~Policies of the Bourse relating to:

6.2.1 applications for admission as Approved Pparticipant ~~and Restricted Trading Permit Holder status~~;

~~6.2.2 the approval of representatives, directors and officers of Approved Participants;~~

6.2.3 the operations and standards of practice and business conduct applicable to Approved Pparticipants and Restricted Trading Permit Holders;

6.2.4.3 investigations and disciplinary matters;

6.2.5 dispute resolution.

6.3 recommendations to the Board ~~for~~ the adoption or amendment of Rules and Policies of the Bourse relating to:

6.3.1 margin requirements;

6.3.2 capital requirements applicable to~~for~~ Aapproved Pparticipants; and

6.3.3 market surveillance;

6.4 ~~the approval~~ approve the ~~of~~ applications for Aapproved Pparticipant ~~and Restricted Trading Permit Holder or designated representative~~ status, and ~~the~~ as well as the suspension and revocation of such approvals pursuant to articles 3001 to ~~3962-3960~~ of the ~~Regulation~~Rules of the Bourse;

6.5 ~~the approval of the~~ resignations of Aapproved Pparticipants pursuant to articles ~~3709-3701~~ to 3714-3708 of the ~~Regulation~~Rules of the Bourse;

6.6 ~~the approval of~~ corporate changes affecting Aapproved Pparticipants, such as changes of control, acquisitions of major positions and reorganizations;

~~6.7 the issuance and suspension or revocation of all categories of trading permits pursuant to articles 3001 to 3962 of the Regulation;~~

6.~~87~~ order~~directing~~ that a special ~~inspection examination~~ or investigation be made pursuant to article 4003 of the ~~Rules of the Bourse~~Regulation;

6.~~98~~ should the circumstances warrant, all aspects of summary proceedings pursuant to articles summarily in the situations mentioned in articles 4004 and 4301 and following of ~~the~~ Regulation~~the Rules of the Bourse~~;

6.~~1009~~ order a suspensions for failure to provide information pursuant to article 4005 of the ~~Regulation~~Rules of the Bourse;

6.~~1110~~ proceed to the hearing of appeals from ~~final~~ decisions ~~of~~ rendered by the ~~d~~Disciplinary ~~e~~Committee in regards to complaints, pursuant to articles 4101 and following of the ~~Regulation~~Rules of the Bourse;

6.~~1211~~ proceed to the hearing of appeals from ~~final~~ decisions rendered by~~of~~ any other committee of the Bourse or ~~of~~ the staff of the Bourse; ~~including decisions rendered pursuant to powers delegated by the Commission and~~

6.12 accept or reject an offer of settlement pursuant to article 4203 of the Rules of the Bourse.

## 7. Procedure

The rules of procedure applicable to the Special Committee shall be the rules of procedure of the Board, subject to such changes as may be necessary to adapt them to the circumstances.

## 8. Decisions and Minutes

(24.11.00, 00.00.08)

Decisions of the Special Committee shall require the vote of the majority of those attending in person, by telephone or by video conference.

In disciplinary matters or summary proceedings, if a member becomes unable to act before a decision is rendered, the decision may be reached by the remaining members, provided they are at least four.

Copies of the minutes of each meeting shall be sent to all members of the Special Committee, to the Chairman of the Board, to the President of the Bourse, ~~to the Senior Executive Vice President, Markets and Corporate Affairs,~~ and to the ~~General Counsel~~ Vice-President, Legal Affairs and General Secretary.

**9. Consequential amendments**

(24.11.00, 00.00.08)

~~9.1 In articles 3001 to 3962 and 4001 to 4404 of the Regulation, all references to the Governing Committee shall be deemed to refer to the Special Committee;~~

~~9.2 In articles 4201 to 4207 of the Regulation regarding settlement, all references to the Executive Committee shall be deemed to refer to two Independent Members of the Special Committee acting jointly. If the two Independent Members are not able to reach a joint decision, they shall refer the matter for decision by the Special Committee.~~

~~9.3 Notwithstanding article 4251 of the Rules of the Bourse Regulation, there shall be no appeal from a decision of the Special Committee relating to disciplinary matters or summary proceedings except by way of a request for revision to the Bureau de décision et de révision en valeurs mobilières to the Commission as provided under the *Securities Act* (Québec).~~

**10. Transitional**

(24.11.00, abr. 00.00.08)

~~These rules shall take effect immediately upon their adoption but shall not apply to matters in which a hearing commenced prior to that time.~~

**RULES REGARDING THE REGULATORY DIVISION**  
**(2000.11.24, 00.00.08)**

**1. Definitions**  
(00.00.08)

In these Rules:

“Approved ~~P~~participant” shall mean an approved participant of the Bourse, whose name is duly recorded as such on the register referred to in article 3010 of the Rules of the Bourse and who has been approved by the Bourse pursuant to its Rules for the purpose of trading products listed on the Bourse~~any person to whom the Bourse has issued a trading permit;~~

“Board” shall mean the Board of Directors of Bourse de Montréal Inc.;

“Bourse” shall mean Bourse de Montréal Inc.;

~~“Commission” shall mean the *Commission des valeurs mobilières du Québec*;~~

“Division” shall mean the Regulatory Division created by the Board;

“Restricted ~~T~~trading ~~P~~permit ~~H~~holder” shall mean the holder of a permit to trade specific listed products issued to a non-~~A~~approved ~~P~~participant pursuant to articles 3951 and following of ~~Rule~~~~By-law~~ Three of the ~~Bourse~~~~Montreal Exchange~~ which were re-adopted, by resolutions of the Board dated October 1, 2000, as forming part of the Rules and Policies of the Bourse;

“Special Committee” shall mean the Special Committee – Regulatory Division appointed by the Board pursuant to the rules adopted in that regard.

**2. Creation of the Division**

The Division is created by the Board with the aim of ensuring that the regulatory functions of the Bourse are carried out efficiently and fairly. To this end, the supervision of the regulatory duties and operations of the Bourse are entrusted to the Division, which shall operate as a distinct business unit separate from the other activities of the Bourse. The Division shall be not-for-profit and financially self-sufficient.

**3. Duties**  
(00.00.08)

The Division carries on its duties in ~~shall have~~ the following fields of activity~~duties~~:

3.1 ~~The Examination~~ Market analysis, Service, whose role includes ~~but not limited to:~~

3.1.1 ~~generally, carrying out the surveillance and examination of the financial situation of Approved Participants and Restricted Trading Permit Holders~~ the review and analysis of the transactions executed on the market of the Bourse to determine whether the applicable Rules and Policies of the Bourse are being complied with;

3.1.2 ~~more particularly, verifying that Approved Participants and Restricted Trading Permit Holders comply with the margin and capital requirements and with the~~

- ~~industry standards which form the regulatory framework to which they must adhere, including, without limitation, the requirements and standards contained in the Rules and Policies of the Bourse and the *Securities Act* (Québec) the review and analysis of position reports filed on a regular basis with the Division by the approved participants of the Bourse;~~
- 3.1.3 ~~ensuring that the Bourse meets the standards of the Canadian Investor Protection Fund regarding the minimum supervision and audit requirements applicable to the self-regulatory organizations bound by the agreement creating the Fund the monitoring of insider trading activities on the market of the Bourse;~~
- 3.1.4 ~~the analysis and processing of exemption requests filed by approved participants with the Division.~~
- 3.2 ~~The Investigation Examinations of approved participants derivative instruments trading desks Service, whose role includes but not limited to:~~
- 3.2.1 ~~investigating complaints against Approved Participants, their directors, officers and registered employees and against Restricted Trading Permit Holders, whether such complaints are filed directly with the Service or forwarded to the Bourse by the Commission the verification of the compliance of the trading practices of approved participants, their approved persons and restricted trading permit holders with the Rules and Policies of the Bourse;~~
- 3.2.2 ~~identifying situations of non-compliance with the Rules and Policies of the Bourse applicable to Approved Participants, their directors, officers and registered employees and to Restricted Trading Permit Holder the issuance of reports that underline any deficiency identified in the course of an examination;~~
- 3.2.3 ~~making recommendations to a complaints evaluation committee regarding the validity of complaints and the disciplinary sanctions to be imposed in the event of a breach of the Rules and Policies of the Bourse.~~
- 3.3 ~~Investigations The Registration Service, whose role includes but not limited to:~~
- 3.3.1 ~~processing applications for approval as the investigation of possible violations to the Rules and Policies of the Bourse by an Approved Participant, an approved person or a Restricted Trading Permit Holder;~~
- 3.3.2 ~~processing the registration files of directors, officers, registered options principals, futures contract principals, investment advisors and investment representatives of Approved Participants the referring of any conclusive investigation to the person of the Division designated as being responsible for enforcement and disciplinary matters;~~
- 3.3.3 ~~processing the files relating to corporate changes affecting Approved Participants, such as changes in control, acquisitions of major positions in an Approved Participant's capital and reorganizations;~~



- ~~3.3.4 reviewing periodically the list of fees payable by Approved Participants and Restricted Trading Permit Holders, and making recommendations to the Special Committee regarding changes.~~
- 3.4 The Margin, Capital and Compliance Policies Service, whose role includes: Enforcement and Discipline, including, but not limited to, the initiation of disciplinary procedures against an approved participant, an approved person or a restricted trading permit holder.
  - ~~3.4.1 developing new Rules and Policies, as well as amendments to existing Rules and Policies, applicable to Approved Participants, their directors, officers and registered employees and to Restricted Trading Permit Holders in regard to margin, capital and compliance requirements;~~
  - ~~3.4.2 carrying out the research required to support proposed new Rules and Policies and to identify alternative solutions, including evaluating the impact of such proposals on Approved Participants, Restricted Trading Permit Holders, investors and the public in general.~~
- 3.5 The Market Surveillance development of regulatory proposals and the issuance of circulars Service, whose role including, es but not limited to:
  - 3.5.1 monitoring compliance with the trading Rules and Policies applicable to the market~~the development of regulatory proposals that seek to amend the Rules and Policies of the Bourse;~~
  - 3.5.2 the identification and investigation of any trading practices in contravention of the Rules and Policies of the Bourse, such as price manipulation, artificial price setting and pre-arranged trades and the imposition of penalties in that regard~~the preparation of regulatory circulars published on a regular basis by the Bourse;~~
  - ~~3.5.3 carrying out market surveillance in real time;~~
  - ~~3.5.4 the examination of the practices of Approved Participants and Restricted Trading Permit Holders regarding trading desk activities.~~
- 3.6 Registration , including, but not limited to:
  - 3.6.1 the processing of applications for admission as an approved participant;
  - 3.6.2 the processing of applications as SAM Authorized Persons;
  - 3.6.3 the processing of files relating to corporate changes affecting approved participants, such as changes in control, acquisitions of major positions in an approved participant's capital and reorganization;

#### 4. Supervision

The Division shall be subject to the supervisory powers of the Special Committee. More particularly, the Special Committee shall:

- 4.1 ensure that the Division has the resources it needs to carry out its duties;
- 4.2 ensure that the Division carries out its duties fairly, objectively and without conflicts of interest;
- 4.3 evaluate the performance of the Division semi-annually and report thereon to the Board;
- 4.4 review periodically the fees payable by Approved Participants and Restricted Trading Permit Holders, and make recommendations thereon to the Board.

**5. Fees**  
(00.00;08)

The fees relating to the Division payable by Approved Participants and Restricted Trading Permit Holders shall be those approved by the Board upon recommendation of the Special Committee.

**6. Administrative Structure**  
(00.00.08)

- 6.1 The Division shall be managed by the Vice-President – Regulatory Division.
- 6.2 Except for matters within the purview of the Special Committee or the Board, the Vice-President – Regulatory Division shall have the authority to make all decisions relating to the Division.
- 6.3 The Vice-President and all other managers of the Regulatory Division shall reside in Quebec.
- ~~6.43~~ The Vice-President – Regulatory Division or the person designated by him shall attend the meetings of the Special Committee.
- ~~6.54~~ The Vice-President – Regulatory Division shall report to the Special Committee in regard to all regulatory and disciplinary matters.
- ~~6.65 With regards to day-to-day administrative matters, T~~he Vice-President – Regulatory Division shall report to the person designated by the Bourse for that purpose.~~Senior Executive Vice President, Markets and Corporate Affairs in regard to day to day administrative matters.~~
- ~~6.76~~ The financial structure of the Division shall be separate from that of the other activities of the Bourse and will operate on a cost recovery basis. Any surplus will be redistributed to Approved Participants, and any shortfall shall be made up by a special assessment upon Approved Participants or by the Bourse upon recommendation to the Board by the Special Committee.
- ~~6.87~~ The finances, fees and other costs imposed by a disciplinary committee or by the Special Committee amounts collected following disciplinary proceedings shall be recorded separately in the books of the Bourse and attributed to the results of the Division.

6.9 Any amount collected following disciplinary proceedings shall be used first to offset the direct costs incurred as part of such proceedings. The net surplus of the amounts so collected may be applied by the Division to any use deemed acceptable and approved beforehand by the Special Committee.

6.810 The Division may provide regulatory services to other exchanges, self-regulatory organizations, trading systems or other persons.

6.911 The Division may subcontract some of its work to other exchanges, self-regulatory organizations or other persons.