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CIRCULAR
April 7, 2004

REQUEST FOR COMMENTS

REQUIREMENT TO APPOINT A CHIEF FINANCIAL OFFICER AND INTRODUCTION OF A CHIEF FINANCIAL OFFICERS QUALIFYING EXAMINATION

AMENDMENTS TO ARTICLES 1102, 3303 AND 3403 OF THE RULES AND TO POLICIES F-2 AND F-3 OF THE BOURSE

Summary

The Special Committee – Regulatory Division of Bourse de Montréal Inc. (the "Bourse") has approved amendments to articles 1102, 3303 and 3403 of the Rules and to Policies F-2 and F-3 of the Bourse, which deal with new standards in regards to the appointment of a Chief Financial Officer. The objective of the proposed amendments is to harmonize the Bourse's regulatory and proficiency requirements concerning chief financial officers with those of the other self-regulatory organizations as well as to ensure a greater knowledge and competence on the part of chief financial officers.

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 broker-dealers regulation responsibilities. The broker-dealers regulated by the Bourse are 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.: 039-2004

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The Division is under the authority of a Special Committee appointed by the Board of Directors of the Bourse. The Board of Directors of the Bourse has delegated to the Special Committee – Regulatory Division its powers to approve or amend some aspects of the Rules and Policies of the Bourse governing approved participants, among which, the Rules and Policies relating to admission as approved participant, approval of persons, disciplinary matters, management of client accounts and operations. These changes are submitted to the Autorité for approval.

Comments on the proposed amendments to articles 1102, 3303 and 3403 of the Rules and to Policies F-2 and F-3 of the Bourse 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*

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, 22nd Floor
P.O. Box 246, Tour de la Bourse
Montréal (Quebec) H4Z 1G3
E-mail: 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".



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I OVERVIEW

A -- Current Rules

The current Rules of Bourse de Montréal Inc. (the "Bourse") do not include in its definition of "Officer", in Article 1102, a category of Chief Financial Officer ("CFO"). Also, Policy F-2 of the Bourse, "*Proficiency Requirements*", does not contain any specific proficiency requirement for CFO's.

B -- The Issue

The securities industry has experienced in the last few years an increased growth in the number of firms entering the industry and, as a direct result, an increasing number of persons working in a CFO capacity. Actually, the Bourse has no specific qualification standard for CFOs. Each application for this function is reviewed on its merits. Aside from assessing accounting qualifications of the candidate, there is no means to assess the regulatory competency of the individual as it relates to the capital rules.

On September 15, 2003, the Investment Dealers Association of Canada (the "IDA") issued its Bulletin No. 3193 in which it was announcing the implementation of amendments to the IDA

By-Laws and Policies requiring that all CFOs pass a qualifying examination. These amendments became effective on January 1, 2004.

The decision by the IDA to implement a requirement for CFOs to pass a qualifying examination resulted from observations to the effect that there was a very strong correlation between Early Warning and Capital Deficiencies occurrences and the inexperience and inability of the concerned CFOs to manage and monitor the regulatory capital of their firms pursuant to regulatory requirements. The Bourse, looking at its own experience concerning Early Warning and Capital Deficiencies occurrences with firms under its audit jurisdiction, observed a similar correlation.

To address this issue, the IDA developed, in collaboration with the Canadian Securities Institute (the "CSI"), a syllabus and competency examination for those individuals applying to be registered as CFO. This exam is in addition to the Partners, Directors and Officers ("PDO") qualifying exam and is currently available through the CSI.

C -- Objective

The objective of the rule and policy amendment proposed by the Bourse is to harmonize its regulatory and proficiency requirements concerning CFOs with those of the IDA. The new proficiency requirements will also ensure that CFOs are adequately informed and educated concerning their regulatory responsibilities. The qualifying examination will also allow the Bourse to have an objective measure of qualifications of CFO applicants. This should increase the effectiveness of the Bourse in its review and evaluation of CFO applications, as the examination will objectively measure the competency of the individual as it relates to financial compliance rules.

D -- Effect of Proposed Rules

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The proposed rule changes will require CFOs to study the syllabus and write an examination on the financial regulatory requirements with a view to increasing their regulatory knowledge. This should have a positive effect on preventing and decreasing the number of early warnings and capital deficiencies.

Individuals who currently hold the title of CFO and are responsible for the regulatory financial compliance of firms that are under the audit jurisdiction of the Bourse and that are also members of the IDA will be given until June 30, 2005 to complete the examination. The reason for this deadline is that the IDA implemented its CFO qualifying examination requirement on January 1, 2004 with an eighteen months timeframe for current CFOs to complete the said examination. According to the principle of the most stringent rule, all IDA member firms, regardless of their regulatory audit jurisdiction, must therefore comply with the established deadline. For individuals currently acting as CFO for firms that are under the audit jurisdiction of the Bourse but that are not members of the IDA, they will be given until the latest of the two following dates to complete the required examination:

- June 30, 2005; or
- The last business day of the sixth month following the implementation date of the CFO qualifying examination requirement by the Bourse.

II -- DETAILED ANALYSIS

A – Regulatory Amendments

Firstly, it is proposed to amend the definition of “Officer” in Article 1102 of the Rules of the Bourse in order to not only include therein a reference to the CFO designation, but also to modernize the wording of the definition as a whole. Thus, the terms “treasurer”, “controller” and “general manager” are replaced by more

current titles such as “chief executive officer”, “chief operating officer” and “chief financial officer”. Furthermore, the definition of “Officer” is expanded in order to give maximum flexibility to approved participants in designating persons as officers or having them designated as such pursuant to some legal or statutory requirement.

Secondly, it is proposed to amend articles 3303 (officers of partnership approved participants) and 3403 (officers of corporate approved participants) of the Rules of the Bourse by adding therein a specific requirement to designate one of the officers as CFO. This individual must satisfy the proficiency requirements provided for in Policy F-2 regarding CFOs. These articles are also amended by adding a provision to the effect that if the current CFO terminates its employment with the approved participant, the approved participant must, if immediately unable to appoint another qualified person as CFO, appoint an interim CFO. This interim CFO must either complete the necessary course within 90 days of its appointment or be replaced by another person who satisfies the established proficiency requirements.

Thirdly, it is proposed to amend Policy F-2 of the Bourse regarding proficiency requirements by adding therein a new section 2A addressing the specific proficiency requirements applicable to CFOs. In addition to relevant education and/or experience requirements, this new section 2A will require from CFOs that they not only successfully complete the Partners, Directors and Senior Officers course but also the Chief Financial Officers Qualifying Examination. These two courses are provided by the Canadian Securities Institute.

Finally, it is proposed to amend Policy F-3 of the Bourse which concerns courses and examinations exemptions by adding a new subsection A) 2) containing specific provisions exempting an applicant to rewrite the Chief Financial Officers Qualifying Examination.

APPENDIX A

Exemptions from rewriting will be granted only to persons who have already been approved as CFO and reapply for this same category of approval within three years of the termination of their previous CFO approval, to those who apply for a first time to be approved as CFO within two years of successfully completed the examination and to those persons who are already approved in another category than CFO but who are working closely with and providing assistance to a CFO.

In all above cases, the concerned persons are required to have successfully completed the Chief Financial Officers Qualifying Examination. It is also important to note that the proposed amendments to the Rules and Policies of the Bourse do not contain any grandfathering provision for those persons who are currently approved as CFO. Therefore, all individuals currently acting as CFO and regardless of their experience will be required to take the concerned examination, the only difference being that these persons will be given a reasonable delay, as explained in Section I above, to complete the said examination.

B -- Comparison with Similar Provisions

UNITED STATES

In the United States applicants for CFO are required by the National Association of Securities Dealers (“NASD”) Membership and Registration Rules 1022(b) and 1022(c), to write the Series 27 or 28 examinations. The Series 27 examination is required to be approved as CFO for a full service firm and the Series 28 examination is required to be approved as CFO for an introducing broker. The NASD’s Financial and Operations Principal Qualification Examinations are designed to test a candidate’s knowledge of applicable rules and statutory provisions relating to broker / dealer financial responsibilities, record keeping, the protection afforded investors under the *Securities Investor Protection Act of 1970*, the Federal Reserve Board’s regulations governing extensions of

credit on securities transactions and uniform practices in the securities industry.

POSITION AND REQUIREMENTS OF THE BOURSE

Policy F-2 of the Bourse sets out specific examination requirements for approval in several senior officer and supervisor capacities, including:

- i) The Partners, Directors and Senior Officers Qualifying Examination;
- ii) The Canadian Commodity Supervisors Examination for Futures Contracts Principals;
- iii) The Options Supervisors Course for Registered Options Principal.

The responsibilities of CFOs are critical to a firm’s compliance with financial requirements and an examination to test competency of applicants for CFO can be seen as being as important as for these other senior positions.

C -- Systems Impact of Proposed Rules Amendments

The proposed change will have no significant impact on the systems of the Bourse or of its approved participants.

D -- Best Interests of the Capital Markets

The Bourse considers that it is in the best interests of the capital market to ensure that those responsible for ensuring a firm’s compliance with regulatory financial requirements designed to protect the public are fully qualified to do so.

E -- Public Interest Objective

The proposal, in addition to promoting and ensuring a greater knowledge and competence on the part of CFOs, does not permit unfair

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discrimination among customers, issuers, brokers, dealers, approved participants or others. It does not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes.

III -- COMMENTARY

A -- Filing in Other Jurisdictions

These proposed amendments will be filed for approval with the Autorité des marchés financiers du Québec and with the Ontario Securities Commission for information.

B – Effectiveness

The Bourse believes that the proposed amendments will be effective in reviewing and evaluating CFO applications for competency and will contribute to a prevention and reduction of the number of early warnings and capital deficiencies resulting from lack of regulatory knowledge and incorrect interpretation and application of the financial compliance rules.

C -- 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 obtained, the project is 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

National Association of Securities Dealers Series 27 and 28 exams

National Association of Securities Dealers Membership and Registration Rules 1022(b) and 1022(c)

Investment Dealers Association of Canada Bulletin No. 3193 dated September 15, 2003

Articles 1102, 3303 and 3403 of the Rules of Bourse de Montréal Inc.

Policy F-2 of Bourse de Montréal Inc., *Proficiency Requirements*

Policy F-3 of Bourse de Montréal Inc., *Required Conditions For Granting An Exemption To A Course Or An Examination Of The Industry*

1102 Definitions

(07.09.99, 31.01.01, 08.07.02, 02.09.03, 00.00.04)

The following is an alphabetical index of each term defined in English in this article with the corresponding French term in brackets.

Officer means any person exercising the functions of a president, vice-president, chief executive officer, chief financial officer, chief operating officer, secretary, ~~treasurer, controller or general manager~~any other person designated an officer of an approved participant by law or similar authority, or any person acting in a similar functions capacity on behalf of an approved participant.

III. Member Firms

3303 Officers of ~~Member Firms~~Partnership Approved Participants
(00.00.04)

- a) Each officer of a ~~member firm~~partnership approved participant at the time he first becomes an officer and throughout his term of office ~~shall~~must comply with article 3302 as required by the context and ~~shall satisfy~~must comply with the requirements of ~~items subparagraphs~~ ii) and iii) in the definition of "industry member" as provided in ~~By-law~~Rule One.
- b) One officer must be appointed as chief financial officer and this one must, in addition to the requirements provided for in paragraph a) above, comply with the proficiency requirements provided for in section 2A of Policy F-2 of the Bourse.
- c) Notwithstanding the preceding paragraph, if the chief financial officer of a partnership approved participant terminates his employment and if the approved participant is unable to immediately appoint another qualified person as chief financial officer, the approved participant may, with the approval of the Bourse, appoint another officer as acting chief financial officer provided that, within 90 days of the termination of the previous chief financial officer,
- i) The acting chief financial officer successfully completes the proficiency requirements provided for in section 2A of Policy F-2 and is approved by the Bourse as chief financial officer; or
- ii) Another person satisfying the proficiency requirements provided for is appointed as chief financial officer by the approved participant and approved by the Bourse.

Exemption: Notwithstanding the foregoing provisions of ~~this the present~~ article, ~~such an~~ officer is exempted from seeking ~~the approval by the Exchange provided of the Bourse if such~~ approval is sought from and granted by the self-regulatory ~~body organization~~ responsible for supervision of the ~~member corporation, under concerned approved participant, pursuant to the agreement establishing~~ the Canadian Investor Protection Fund.

IV. Corporate Approved Participants

3403 ~~Officers of Member Corporations~~ Corporate Approved Participants
(00.00.04)

- a) Each officer of a ~~member corporation~~ corporate approved participant at the time he first becomes an officer and throughout his term of office ~~shall~~ must comply, ~~mutatis mutandis, with~~ with the provisions ~~enunciated mutatis mutandis at~~ of article 3402 and ~~shall~~ must satisfy the requirements of ~~items-subparagraphs ii) and iii) in of~~ the definition of "industry member" provided in ~~By-Law~~ Rule One.
- b) One officer must be appointed as chief financial officer and this one must, in addition to the requirements provided for in paragraph a) above, comply with the proficiency requirements provided for in section 2A of Policy F-2 of the Bourse.
- c) Notwithstanding the preceding paragraph, if the chief financial officer of a corporate approved participant terminates his employment and if the approved participant is unable to immediately appoint another qualified person as chief financial officer, the approved participant may, with the approval of the Bourse, appoint another officer as acting chief financial officer provided that, within 90 days of the termination of the previous chief financial officer,
- i) the acting chief financial officer successfully completes the proficiency requirements provided for in section 2A of Policy F-2 and is approved by the Bourse as chief financial officer; or
- ii) another person satisfying the proficiency requirements provided for is appointed as chief financial officer by the approved participant and approved by the Bourse.

Exemption: Notwithstanding the foregoing provisions of ~~this the present~~ article, ~~such an~~ officer is exempted from seeking ~~the approval by the Exchange provided of the Bourse if such~~ approval is sought from and granted by the self-regulatory ~~body-organization~~ responsible for the supervision of the ~~member corporation, under concerned approved participant, pursuant to the agreement establishing~~ the Canadian Investor Protection Fund.

POLICY F-2
(21.08.02, 00.00.04)

PROFICIENCY REQUIREMENTS FOR APPROVED PERSONS

2A) Chief Financial Officers

The proficiency requirements for a chief financial officer designated pursuant to articles 3303 or 3403 are the following:

- a) a financial accounting designation, university degree or diploma, or equivalent work experience; and
- b) successful completion of the Partners, Directors and Senior Officers Course and of the Chief Financial Officers Qualifying Examination.

POLICY F-3

REQUIRED CONDITIONS FOR GRANTING AN EXEMPTION TO A COURSE OR AN
EXAMINATION OF THE INDUSTRY
(11.06.03, 00.00.04)

A. Exemptions to retake courses

1. The Canadian Securities Course

An applicant will be exempted from retaking the Canadian Securities Course if he satisfies one of the following requirements:

- a) he was an approved person, currently seeking to re-enter the securities industry within the same category of registration within three years of his registration lapsing;
- b) he is an approved person, currently seeking re-registration within the same category of registration within three years of that category of registration lapsing;
- c) he is currently seeking approval within three years of successfully completing the Canadian Securities Course.

2. The Chief Financial Officers Qualifying Examination

An applicant will be exempted from rewriting the Chief Financial Officers Qualifying Examination if the applicant:

- a) is currently approved in any category other than chief financial officer and, since completing the Chief Financial Officers Qualifying Examination, has been working closely with and providing assistance to the chief financial officer;
- b) was approved as chief financial officer with an approved participant and is currently seeking re-approval as such within three years of the end of the last approval date;
- c) is currently seeking approval as chief financial officer within two years of successfully completing the Chief Financial Officers Qualifying Examination.

3. Other Courses