

**MONTRÉAL EXCHANGE**

**Regulatory Division  
Newsletter**

**1<sup>st</sup> Edition**

**2022**



**THIS NEWSLETTER COVERS  
THE PERIOD FROM JANUARY 1  
TO JUNE 30, 2022.**

Bourse de Montréal Inc. (the “Bourse”) is recognized by the Autorité des marchés financiers (the “Autorité”) as an exchange and a self-regulatory organization. The Regulatory Division (the “Division”) is a separate business unit of the Bourse responsible for carrying out its regulatory functions and operations. The Division consists of four services: Core Regulatory Functions, Strategy and Regulatory Outreach, Legal and Regulatory Affairs, and Systems and Data.

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

Enjoy!

## Topics

Events Organized by the Division

The Division’s Initiatives

Participant Portal

Profile of Approved Participants

Regulatory Activities

- Examinations
- Market Analysis
- Investigations
- Enforcement
- Imposed Late Filing Fees

Recommended Best Practice

Publications of the Division



# Events Organized by the Division

- The Division's Regulatory User Group held virtual meetings on February 24<sup>th</sup> and May 26<sup>th</sup>, 2022. The next two User Group meetings are scheduled for September 29<sup>th</sup> and December 1<sup>st</sup>, 2022.
- The Division held the Compliance Forum on June 20<sup>th</sup>, 2022 prior to the 2022 Canadian Annual Derivatives Conference, its first in-person event since 2019. This event is designed to discuss key regulatory matters of the Bourse.

## The Division's Initiatives

In January 2022, the Division published its [2022 Compliance Priorities and Regulatory Initiatives](#). Progress has been made on several of the key initiatives that the Division announced in this publication:

1. Introducing a prearranged transaction order marker (Q4 2022)
  - a. The proposed rule amendment was published for comment.
  - b. A Technical Notice was published.
2. Introducing requirements related to cybersecurity applicable to Approved Participants (Q2 2022)
  - a. The proposed rule amendment was published for comment.
3. Developing new Client Identifier guidelines and corresponding regulatory amendment proposal(s) (Q4 2022)
  - a. Client Identifier Working Group meetings occurred during H1.
4. Introducing new modules on the Participant Portal (throughout 2022)
5. Providing educational material to the various stakeholders through the Regulatory Outreach Program (throughout 2022)
6. Hosting an in-person Compliance Forum (pandemic conditions permitting) (Q2 2022)
  - a. The Forum was held on June 20, 2022 from 10am-12pm just prior to the Canadian Annual Derivatives Conference.
7. Optimizing surveillance tools by enhancing analytics and exploring innovative approaches (throughout 2022)

### Participant Portal

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

As of now, the Portal has the following:

- The list of the Participant's key contacts and the administration of access to the Portal;
- The Designated Representative and authorized signatories module that allows Participants to manage these appointments and notify the Division accordingly;
- The Approved Person module which includes the application forms, transfer forms, uniform termination notice (UTN) form, an alert listing the MX-IDs to be deleted following a UTN submission, an export feature, and access to the training courses and exams to trade on the Bourse;
- The MX-ID module for requesting new MX-IDs, transfer requests, canceling existing MX-IDs and an export feature;
- The DEA client identifier module that includes a modifiable list of Participant DEA clients with their unique identifiers, including a comprehensive export function;
- Modules allowing the filing of notices of non-compliance (Gatekeeper) and submitting corrections to the identification of orders (Order Marker Corrections);

- The secure transfer of documents (inbound & outbound) between the Division and Participants;
- The Scorecard module which allows the Division to share its observations with Participants;
- Training capsules, in video format, to guide the Participant in the use of each module; and
- The new Participant approval module that facilitates submissions of requests for approval as Approved Participants.

## Participant Scorecard

In January 2022, the Division issued the H2 2021 Participant Scorecard (the “Scorecard”) via the Portal. The Scorecard is one way for the Division to share its observations with Participants and help them track their level of compliance with certain regulatory requirements of the Bourse. The Scorecard is distributed bi-annually.

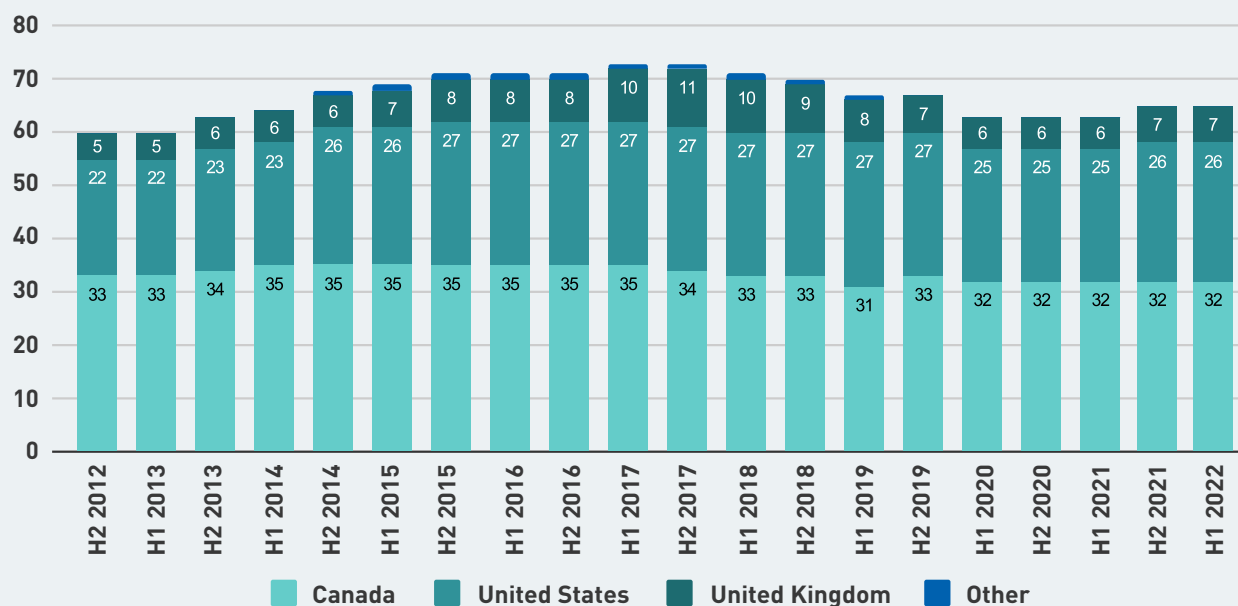
## COVID-19 Pandemic: Cessation of Alternative Measures

After analysis and consideration in lifting the restrictions related to the pandemic, the Division informed Participants that the alternative measures described in circular [043-20](#) and the additional 30-minute delay granted in circular [049-20](#) when reporting Large Open Position Reports (“LOPR”) and Exchange of Futures for Related Products (“EFRP”) Transactions would cease after the markets closed on June 30<sup>th</sup>, 2022 (circular [064-22](#)). Therefore, as of the close of June 30, 2022, Approved Participants are again required to transmit LOPR no later than 9 a.m. (ET) on the business day following the one for which positions must be reported and report EFRP transactions within one hour upon determination of all the relevant terms. Failure to comply with these requirements may result in late filing fees.

# Profile of Approved Participants

As at June 30, 2022, the Bourse continued to have a total of 65 Participants. The following figure illustrates the number of Participants, by jurisdiction.

**FIGURE 1**  
**Total Number of Participants, by Jurisdiction**



# Regulatory Activities

## Examinations

The Examinations service conducts examinations of the derivatives trading of the Participants of the Bourse. The purpose of these examinations is to assess the compliance of Participants of the Bourse with its Rules.

From January 1 to June 30, 2022, the Division performed 12 examinations leading to observations. Recurring findings include:

- Policies and procedures incomplete or not updated with new rulebook article references (see [Article 3.100](#));
- Large Open Position Reporting (LOPR) discrepancies (see [Article 6.500](#));
- Inadequate account information in Large Open Position Reporting (LOPR) (see [Article 6.500](#));
- Inadequate annual evaluation of clients with direct electronic access (see [Article 3.5](#)); and
- Failing to register employees having access to the Electronic Trading system (see [Article 3.400](#)).

**DURING THE PERIOD FROM JANUARY 1 TO JUNE 30, 2022, THE DIVISION CONDUCTED A TOTAL OF 12 EXAMINATIONS LEADING TO FINDINGS.**

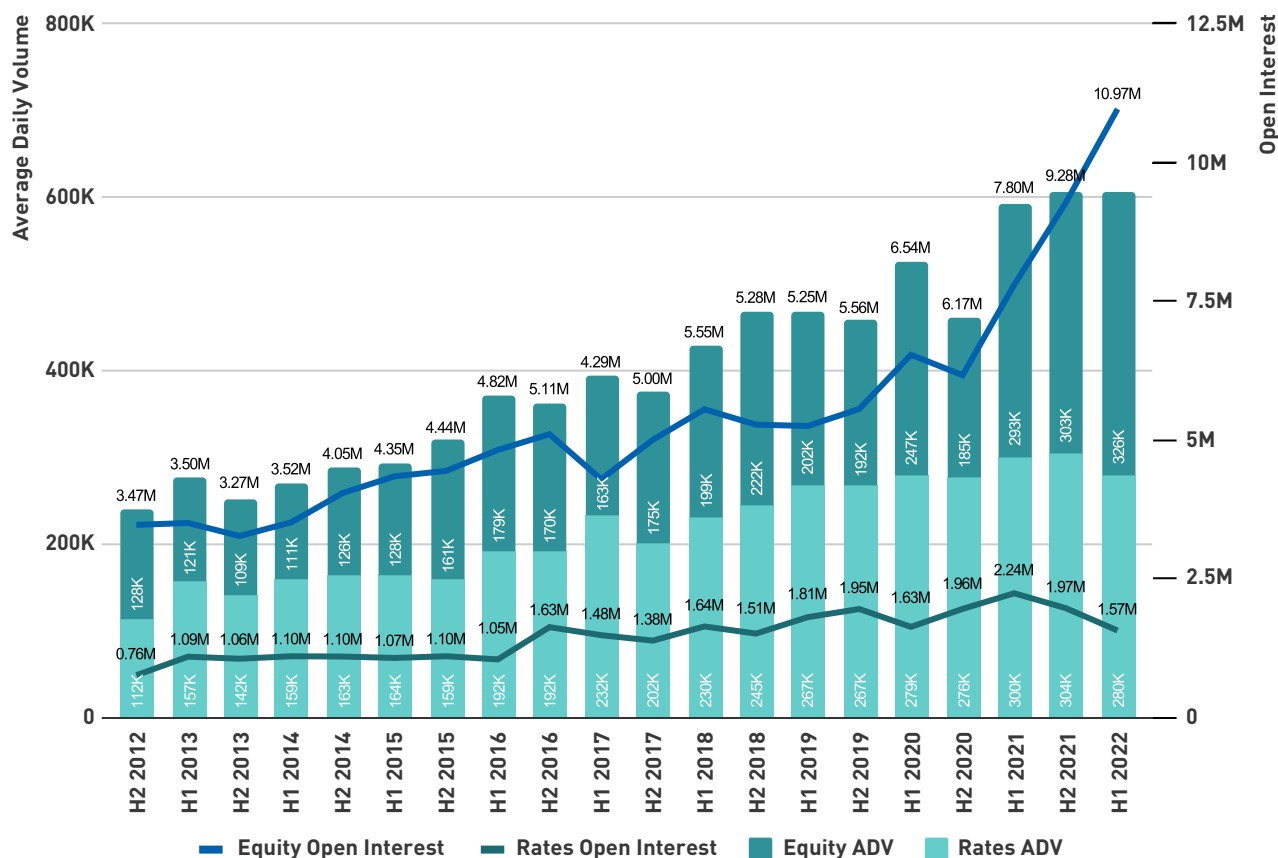
## Market Analysis

Among the core regulatory functions, the Market Analysts perform market surveillance to detect potential breaches of regulations and monitor insider trading activities on the options market of the Bourse. The Market Analysis unit also reviews trading on the Bourse to determine whether Participants are complying with trading rules and principles, and whether these trades involve abusive or manipulative trading practices.

For the first half of 2022, an average daily volume of 606,000 contracts was observed compared to 607,000 contracts for the second half of 2021, a decrease of 0.1%. In the first half of 2022, the Division monitored 12.8 million trades executed on the Bourse.

The Market Analysts are also responsible for conducting preliminary reviews of all complaints received from various sources. The Division received four complaints in the period from January 1 to June 30, 2022, from retail traders, market makers and the Market Operations Department.

**FIGURE 2**  
**Average Daily Volume and Open Interest, by Asset Class**



**IN THE FIRST HALF OF 2022, THE DIVISION RECEIVED A TOTAL OF FOUR COMPLAINTS.**

## Investigations

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

From January 1 to June 30, 2021, the Division opened one investigation concerning Access to the Bourse’s trading system, which may have contravened Articles [3.4](#), [3.100](#), and [3.400](#) of the Rules of the Bourse. During the same period, the Division reopened two investigations. Both investigations were related to Article 7.5, - Manipulative or Deceptive Methods of Trading Prohibited.

**IN THE FIRST HALF OF 2022, THE DIVISION OPENED ONE NEW INVESTIGATION AND REOPENED TWO INVESTIGATIONS.**

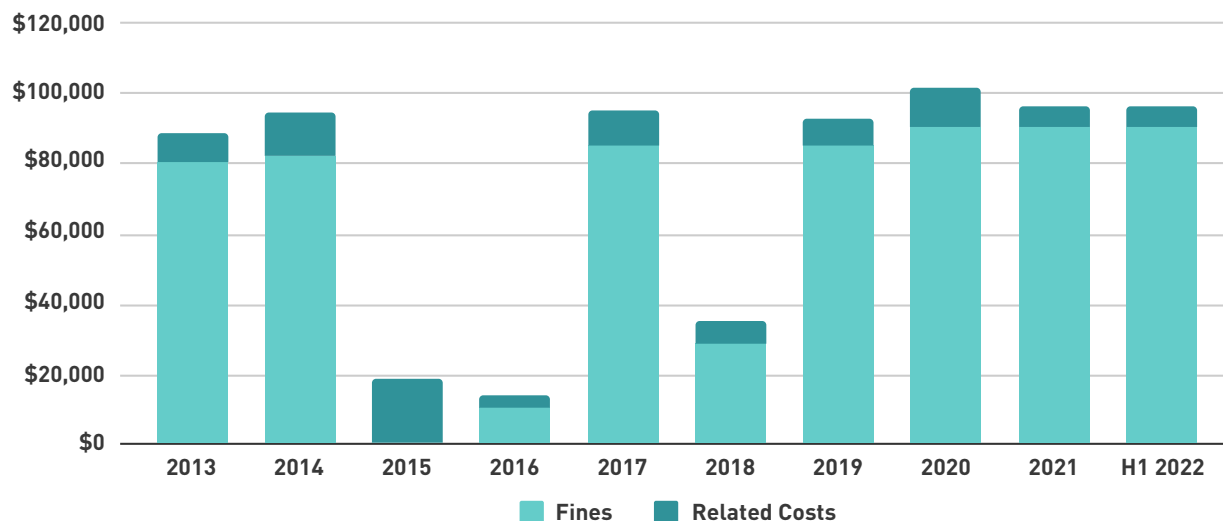
## Enforcement

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

## Disciplinary Decisions

In the first half of 2022, the Bourse published one disciplinary decision ([Circular 056-22](#)). In the offer of settlement, UBS Securities LLC acknowledged having contravened Articles [3.4](#), [3.400](#), and [3.100](#) of the Rules of the Bourse, and a fine of \$90,000 as well as an amount of \$5,685 for the related costs were approved by the Disciplinary Committee.

**FIGURE 3**  
**Fines and Related Costs Imposed as Part of Disciplinary Matters**



## Fines for Minor Violations

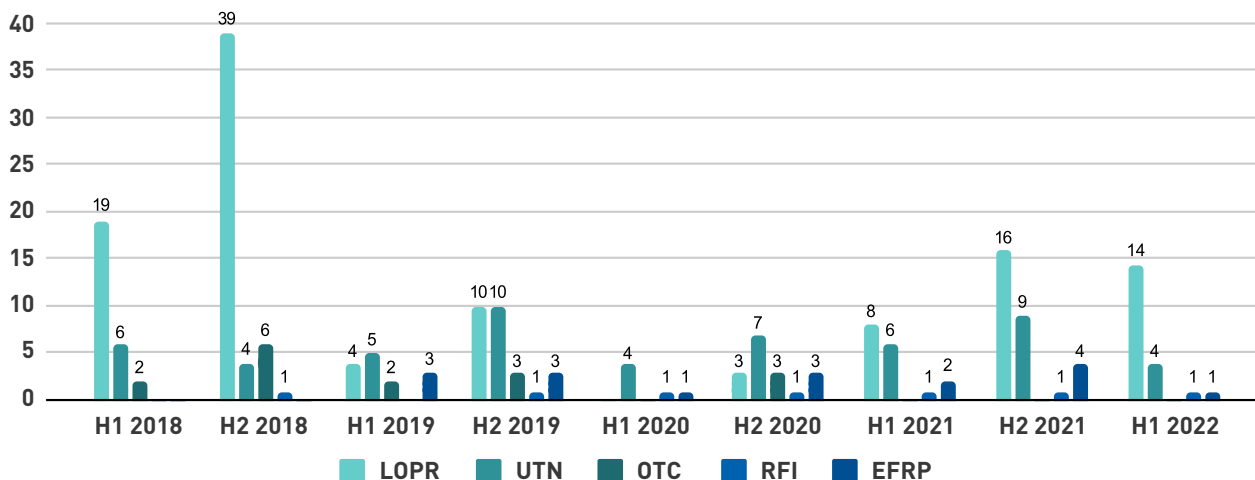
In the first half of 2022, the Division did not impose fines for minor violations.

**ONE DISCIPLINARY DECISION WAS PUBLISHED  
IN THE FIRST HALF OF 2022.**

## Imposed Late Filing Fees

During the first half of 2022, the Division imposed late filing fees of \$5,000 for late Large Open Position Reports ("LOPR"), \$3,100 for Uniform Termination Notices submitted more than ten days after the termination date ("UTN"), \$500 for late responses to information or documentation requested by the Division ("RFI"), and \$100 for Exchange of Futures for Related Product transactions not reported within the prescribed time limit ("EFRP"). No late filings were observed for bi-monthly reports on over-the-counter options ("OTC"). Figure 4 illustrates the number of late filings.

**FIGURE 4**  
**Number of Late Filings, by Type**



## Best Practice Recommendation

### LOPR Supervision

- Maintain a written policy and procedure best describing the process
- Perform periodic position reconciliation
- Enhance supervision to include a review of:
  - position quantities and symbols
  - account information accuracy regarding LEIs, Owner IDs, Account Type categorization, deleting inactive/closed accounts, etc.
- Consider any potential corporate action impact on instrument symbology for accurate position aggregation calculations



# Publications of the Division

## Position Limits

- [Circulars 005-22](#), [019-22](#), [025-22](#), [037-22](#), [046-22](#), [057-22](#), [061-22](#), and [073-22](#)

## LOPR

- No updates

## Amendments to the Rules and Policies of the Bourse

- [Circular 002-22](#): Amendment to the List of Fees of Bourse de Montréal Inc. (effective February 1<sup>st</sup>, 2022)
- [Circular 008-22](#): Self-Certification - Amendments to Part 4 of the Rules of Bourse de Montréal Inc. - Conduct of the regulatory functions of the Bourse
- [Circular 015-22](#): Amendment to the List of Fees of Bourse de Montréal Inc. (effective March 1<sup>st</sup>, 2022)
- [Circular 030-22](#): Amendment to the List of Fees of Bourse de Montréal Inc. (effective April 1<sup>st</sup>, 2022)
- [Circular 038-22](#): Request for Comments - Amendment to the Rules of Bourse de Montréal Inc. to modify the no-review range of the 30-Year Government of Canada Bond Futures (LGB)
- [Circular 043-22](#): Self-certification - New products - Amendments to the Rules of the Bourse to introduce futures contracts on new sector indices
- [Circular 044-22](#): Amendment to the List of Fees of Bourse de Montréal Inc. (effective May 1<sup>st</sup>, 2022)
- [Circular 051-22](#): Amendments to the Rules of the Bourse to introduce cybersecurity incident reporting requirements
- [Circular 052-22](#): Amendments to the Rules of the Bourse relating to the introduction of a marker at order entry for prearranged transactions
- [Circular 053-22](#): Amendments to the Rules of the Bourse for position limits of narrow based index futures contracts
- [Circular 075-22](#): Amendments to the Rules of Bourse de Montréal Inc. to introduce cybersecurity incident reporting requirements

## Enforcement

- [Circular 018-22](#): Hearing before the Disciplinary Committee of Bourse de Montréal Inc. - UBS Securities LLC
- [Circular 056-22](#): Disciplinary Decision — Offer of Settlement - UBS Securities LLC

## Alternative Measures and Reporting Delays

- [Circular 034-22](#): Extension until June 30, 2022 - Alternative Measures and Reporting Delays - COVID-19
- [Circular 064-22](#): Cessation of Alternative Measures and Reporting Delays - COVID-19

## FAQs and Guidelines

- [Circular 023-22](#): Guidelines Update – Approved Persons
- [Circular 048-22](#): Frequently Asked Questions – Position Limits

## Other

- [Circular 003-22](#): Regulatory User Group - Members List - Addendum
- [Circular 004-22](#): The Regulatory Division Participant Scorecard
- [Circular 009-22](#): Regulatory Division's Participant Portal - Release of the Participant Approval Module
- [Circular 010-22](#): Publication of the Newsletter from the Regulatory Division
- [Circular 011-22](#): 2022 Compliance Priorities and Regulatory Division Initiatives
- [Circular 041-22](#): Special Committee of the Regulatory Division - Call for Nominations
- [Circular 045-22](#): Memorandum of Understanding between the Investment Industry Regulatory Organization of Canada and Bourse de Montréal Inc.
- [Circular 058-22](#): Call for Applications - Disciplinary Committee of the Montréal Exchange

# For more information



## REGULATORY DIVISION

**T** +1 514-787-6530

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

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

**info.mxr@tmx.com**

**reg.m-x.ca**

 **m-x.ca/linkedin**

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