



**TO: Approved Participants
Chief Financial Officers
External Auditors
Holders of the Rules and Policies Manual**

July 22, 2002

**AMENDMENTS TO POLICY C-3 AND TO THE MONTHLY FINANCIAL REPORT
AND ELIMINATION OF THE QUARTERLY OPERATIONS QUESTIONNAIRE**

Bourse de Montréal Inc. (the "Bourse") has amended its Policy C-3 entitled Joint Regulatory Financial Questionnaire and Report ("JRFQR") and the Monthly Financial Report ("MFR"), and has eliminated the Quarterly Operations Questionnaire ("QOQ") which was required pursuant to article 7157 of the Rules of the Bourse. These amendments and the concerned elimination become effective on July 29, 2002, the limit date for the filling of the June 30, 2002 MFR. A copy of the amendments is attached.

BACKGROUND

The objective of the amendments is to reduce approved participants' regulatory reporting burden without compromising the Bourse's regulatory responsibility.

A review of the regulatory reports filed by approved participants has identified reports that were out-of-date and no longer useful in evaluating how approved participants manage their operations and control their risks. Consequently, a number of statements, schedules and reports were either amended or, in some instances, deleted. The review done also led to the conclusion that the QOQ should be eliminated.

Although the QOQ has now been eliminated, some information that were contained in it still remain relevant and have therefore been incorporated into the JRFQR and MFR. These questions pertain to the number of trades executed, unresolved differences – accounts and security counts, the declarations relating to securities count policies and procedures and to the disclosure of insurance coverage.

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SUMMARY OF AMENDMENTS

The amendments to the Rules and Policy C-3 of the Bourse are as follows:

- **ARTICLE 7157**

The reference to the QOQ in article 7157 has been removed.

- **POLICY C-3 – JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT**

- **GENERAL NOTES AND DEFINITIONS**

General housekeeping changes have been made to the General Notes and Definitions.

- **STATEMENT A – STATEMENT OF ASSETS**

As Schedule 3 has been eliminated, the references to this schedule have been removed from Lines 9 and 53 of Statement A.

- **STATEMENT B – STATEMENT OF NET ALLOWABLE ASSETS AND RISK ADJUSTED CAPITAL**

As Schedules 3 and 8 have been eliminated, the references to these schedules have been removed from Lines 9 and 13 of Statement B. In addition, the requirement to report the details of unresolved differences, formerly set out in the QOQ, has been added as a supplemental schedule to Statement B. Consequently, instructions have been added to the Notes and Instructions to Statement B relating to the completion of the supplemental schedule and of Line 19.

- **STATEMENT E – SUMMARY STATEMENT OF INCOME**

Line 1 requiring the number of employees to be reported has been moved to a new supplementary information schedule, Schedule 15. In addition, a new revenue category, “Corporate Finance Revenue”, has been added to clearly distinguish fees earned in providing advice from other forms of principal revenue. Line renumbering and referencing changes resulting from the changes noted above have been made to Statement E and to the Notes and Instructions to Statement E.

- **STATEMENT F – STATEMENT OF CHANGES IN CAPITAL AND RETAINED EARNINGS (CORPORATIONS) OR UNDIVIDED PROFITS (PARTNERSHIPS)**

The related reference to Line C-2(a) of Statement F has been changed from “E-29” to “E-28” to reflect the line renumbering changes that have been made to Statement E.

▪ **CERTIFICATE OF PARTNERS OR DIRECTORS**

The QOQ's question on approved participant's policies and procedures relating to security counts has been added as Line 11 to the Certificate of Partners or Directors.

▪ **SCHEDULE 2 – ANALYSIS OF SECURITIES OWNED AND SOLD SHORT AT MARKET VALUE**

A line to report any margin reduction taken due to “offsets against Trader reserves, PDO [Partner, Director or Officer] guarantees or general allowances” has been added as Line 12 as part of the Supplementary Information section at the bottom of Schedule 2. Instructions relating to the completion of Line 12 have also been added to the Notes and Instructions to Schedule 2.

▪ **SCHEDULE 2B – UNDERWRITING ISSUES MARGINED AT LESS THAN NORMAL MARGIN RATES**

As Schedule 3 has been eliminated, the reference to this schedule has been removed from the Notes that appear at the bottom of Schedule 2B and replaced with a reference to Lines 9 and 53 of Statement A.

▪ **SCHEDULE 4 – ANALYSIS OF CLIENTS' TRADING ACCOUNTS LONG AND SHORT**

A line to report any margin reduction taken due to “offsets against IA [Investment Advisor] reserves, partners, directors and officers guarantees or general allowances” has been added as Line 9(b) as part of the supplementary information section at the bottom of Schedule 4. Instructions relating to the completion of Line 9(b) have also been added to the Notes and Instructions to Schedule 4.

▪ **SCHEDULE 5 – ANALYSIS OF BROKERS AND DEALERS' TRADING BALANCES**

Housekeeping changes have been made to Note 3 of the Notes and Instructions of this schedule.

▪ **SCHEDULE 6 – INCOME TAXES**

The related reference to Line 5 of Schedule 6 has been changed from “E-27(a)” to “E-26(a)” to reflect the line renumbering changes that have been made to Statement E.

▪ **SCHEDULE 10 – INSURANCE**

Part A, Line 1(a), Coverage required for Financial Institution Bond for client net equity, has been separated into two parts: (1) Firm’s own and (2) those of the introducing firms for which the approved participant acts as a carrying broker. In addition, Line 2 of the Notes and Instructions to Schedule 10 has been amended to replace the reference to the QOQ with a reference to the MFR.

▪ **SCHEDULE 11 – UNHEDGED FOREIGN CURRENCIES CALCULATION**

Schedule 11 has been separated into two Schedules: (1) Schedule 11 – Unhedged Foreign Currencies Calculation – Summary and (2) Schedule 11A – Details of Unhedged Foreign Currencies Calculation for Individual Currencies with margin required greater than or equal to \$5,000. In addition, the Notes and Instructions to Schedules 11 and 11A have been amended to reflect these changes.

▪ **SCHEDULES 13 AND 13A – EARLY WARNING TESTS**

The related reference to Note 2 of the Notes and Instructions to Schedules 13 and 13A has been changed from “Statement E, Line 24” to “Statement E, Line 23” to reflect the line renumbering changes that have been made to Statement E.

▪ **SCHEDULE 15 – SUPPLEMENTARY INFORMATION**

Schedule 15 has been created to regroup some supplementary information into one schedule. Information that must be reported are as follows:

1. market value of securities required to be recalled from call loans to satisfy segregation requirements;
2. number of employees, both registered and unregistered; and
3. number of trades executed during the month, by type of trade.

These items were previously reported in the QOQ and are not subject to audit.

SUMMARY OF ELIMINATIONS

In addition to the elimination of the QOQ, the following schedules have been eliminated from Policy C-3:

- **SCHEDULE 2C – Ten Securities Requiring the Most Margin on Long or Short Market Values with Margin Rates Greater than 5% and Less than or Equal to 10%;**

- **SCHEDULE 2D** – Ten Securities Requiring the Most Margin on Long or Short Market Values with Margin Rates Greater than 10%;
- **SCHEDULE 3** – Analysis of Syndicate and Joint Trading Accounts Long and Short;
- **SCHEDULE 3A** – Details of Syndicate Accounts for which the Firm is Lead Underwriter;
- **SCHEDULE 4B** – Details of the Ten Clients Requiring the Most Margin to be Provided After Reduction for any Bad Debt Provision;
- **SCHEDULE 8** – Contingent Liabilities Under Sales of Debt Instruments with Holder Put Features and other Contingencies; and
- **SCHEDULE 12A** – Details of Ten Commodity Futures with the Largest Aggregate Long or Short Market Value;

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