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**CIRCULAR**  
September 13, 2005

## **UPDATING OF RULES SEVEN, ELEVEN AND FOURTEEN**

Bourse de Montréal Inc. (the Bourse) has updated its Rules Seven, (“Operations of Approved Participants”), Eleven (“Options – Management of Accounts”) and Fourteen (“Futures Contracts and Options on Futures Contracts – Management of Accounts”). The purpose of the amendments is to update and standardize the terminology used in these Rules in consideration of the demutualization of the Bourse. The Bourse also took this opportunity to withdraw some provisions from the Rules that had become obsolete and to modify some other provisions which, in the opinion of the Bourse, needed corrections. Approved participants will find hereunder a summary of the most important amendments that were made to the relevant Rules. All the amendments made are effective immediately.

### **SUMMARY OF THE MOST IMPORTANT AMENDMENTS**

#### **Rule Seven – Operations of Approved participants**

- Articles 7216, 7220 and 7221, which contained provisions relating to margin and capital requirements applicable to options and futures contracts, have been abrogated. All margin and capital requirements applicable to these types of derivative instruments are now consolidated in a single rule, Rule Nine. Rule Seven now only contains margin and capital requirements that are applicable to securities other than derivative instruments;
- Article 7354, which prohibited the hiring by approved participants of employees of the Bourse, has been abrogated. This article, which had been in force for about twenty years has been deemed irrelevant;
- A new article 7451 has been added to stipulate the obligation for approved participants to disclose to their clients any conflict of interest situation. This article did exist previously in the regulations of the Bourse, but it was not properly located, being in Rule Four of the Bourse which mainly covers disciplinary matters;

Circular no : 131-2005  
Amendment no : 008-2005

- Article 7456 contained provisions pertaining to the conditions that have to be satisfied to permit access by clients to trading facilities that were in place when the Bourse was an open outcry market. This article also enumerated a long list of recognized exchanges. Following the conversion of the Bourse to a fully electronic market, these access rules had become entirely obsolete. In addition, with all the exchange restructurings and reorganizations that have occurred in the last few years, the list of recognized exchanges had also become obsolete. Now, rather than listing the recognized exchanges and having to make revisions every time changes occur in these exchanges, the Bourse chose to integrate into the definitions of article 1102 of its Rules a general definition of what is a recognized exchange;
- Article 7454, which specifies the conditions that must be complied with by an approved participant opening an account in the name of an employee of another approved participant has been simplified by replacing the requirement that the consent of the employer of this person be transmitted to the Bourse by a simpler requirement to the effect that such consent be retained in the client's file.

### **Rule Eleven – Options – Management of Accounts**

- Former Rule Eleven contained many provisions that were specific to options on futures contracts while the provisions relating to futures contracts were in Rule Fourteen. In fact, Rules Eleven and Fourteen, given the way they were structured, could lead to believe that there was no relationship between options on futures contracts and futures contracts and that these two types of derivative instruments could be managed distinctly. But in fact these two types of derivative instruments cannot be dissociated. Articles of Rule Eleven pertaining to options on futures contracts have therefore been entirely abrogated and the provisions relating to these options and related subjects such as the opening of accounts, the supervision of trading activities, the approval of persons responsible for the supervision of transactions in these options and the approval of representatives were amalgamated with the provisions of Rule Fourteen regarding the same subjects but only for futures contracts.

In accordance with the above, former articles 11006 to 11013 of Rule Eleven have been abrogated as well as former articles 11158 to 11165.

- A new article 11158 has been added to Rule Eleven regarding the allocation of assignment notices to short options positions in clients' accounts. The text of this article was previously in Rule Six ("Trading Rules"). Since this is more a matter of account management than a matter of trading, it was deemed more relevant to have this provision placed in a Rule relating to the management of options accounts.

**Rule Fourteen – Futures Contracts and Options on Futures Contracts – Accounts Management**

- Following the change from an open outcry market to a fully electronic market, the futures contract committee, which was composed of floor traders no longer exists and consequently all references to this committee have been repealed. It is now the Bourse itself that assumes the responsibilities of this committee more particularly for what pertains to emergency situations (see article 14005);
- As explained previously, provisions relating to options on futures contracts that were formerly in Rule Eleven have been amalgamated with the corresponding provisions of Rule Fourteen regarding futures contracts. Following this amalgamation, the vast majority of articles of Rule Fourteen have been amended to refer not only to futures contracts but also to options on futures contracts;
- Article 14103 relating to the content of transaction records that must be maintained by approved participants was expanded by adding thereto additional requirements regarding information that must be found in these records, more specifically an identification that the transaction is an opening or closing transaction, the price at which the transaction was executed and, in the case of an option on futures contract, the exercise price of the option and its premium;
- A new provision was added to article 14151 regarding the opening of futures contract and options on futures contract accounts. This new provision requires from approved participants that they file with the Bourse a copy of the disclosure document on futures contracts and options on futures contracts that is distributed to clients;
- Article 14174 has been entirely abrogated. This article prohibited the opening by approved participants of “omnibus” accounts without the prior approval of the Bourse. The Bourse no longer enforced this requirement for a long time and did not see the usefulness of maintaining such a requirement.

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