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**CIRCULAR**  
April 7, 2004

## **REQUEST FOR COMMENTS**

### **APPROVED INTER-DEALER BOND BROKERS**

#### **AMENDMENTS TO THE NOTES AND INSTRUCTIONS OF SCHEDULE 5 OF THE "JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT" – POLICY C-3 OF THE BOURSE**

#### **Summary**

The Special Committee – Regulatory Division of Bourse de Montréal Inc. (the "Bourse") has approved amendments to the Notes and Instructions of Schedule 5 of the "Joint Regulatory Financial Questionnaire and Report" – Policy C-3 of the Bourse, which deal with the approved inter-dealer bond brokers. The objective of the proposed amendments is to replace the current list of approved inter-dealer bond brokers presented in Note 7 of the Notes and Instructions of Schedule 5 by a list that will be updated and published from time to time in the form of a circular.

#### **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.

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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 the Notes and Instructions of Schedule 5 of Policy C-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](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".



### APPROVED INTER-DEALER BOND BROKERS

- AMENDMENTS TO NOTES AND INSTRUCTIONS OF SCHEDULE 5 OF THE “JOINT REGULATORY FINANCIAL QUESTIONNAIRE AND REPORT” – POLICY C-3 OF THE BOURSE

#### I DETAILED ANALYSIS

##### A) Current Rules

The Notes and Instructions of Schedule 5 – Analysis of Brokers’ and Dealers’ Trading Balances – of the “Joint Regulatory Financial Questionnaire and Report” (“JRFQR”), Policy C-3 of Bourse de Montréal Inc. (the “Bourse”) present a list of approved inter-dealer bond brokers which must be treated as acceptable counterparties to calculate margin and capital requirements on trading balances with brokers and dealers. The approved inter-dealer bond brokers that are listed in Note 7 of the Notes and Instructions of Schedule 5 of Policy C-3 of the Bourse are the following:

- Cantor Fitzgerald Partners
- Cowen & Company
- Euro Brokers Canada Ltd.
- Exco Shorcan Limited
- Freedom International Brokerage Inc.
- Garban Canada
- M.W. Marshall Securities (Canada) Limited
- Prebon Yamane (Canada) Limited
- Tullet & Tokyo Securities (Canada) Limited

The Investment Dealers Association of Canada (the “IDA”) Regulation 2100 defines an *Inter-*

*dealer Bond Broker* as “an organization that provides information, trading and communications services in connection with trading in domestic debt securities among customers of the organization”. Under IDA By-law No. 36, an inter-dealer bond broker is eligible for approval if the following conditions are met:

- it is registered or licensed in each jurisdiction in Canada where the nature of its business requires such registration or licensing, and is in compliance with such legislation and the requirements of any securities commission having jurisdiction over the applicant; and
- it complies with such other standards and conditions of approval as set forth from time to time in the Regulations.

Since this broker category does not exist in Quebec, the Bourse never had rules similar to those of the IDA as described above and has always relied on the IDA for the approval of this type of brokers.

##### B) Issues and Alternatives Considered

Since the list of approved inter-dealer bond brokers presented in Note 7 of the Notes and Instructions of Schedule 5 of Policy C-3 of the Bourse has not been revised for many years, this list is incomplete and erroneous. Brokers that are currently approved as inter-dealer bond brokers are the following:

- BrokerTec USA LLC
- Cantor Fitzgerald Partners
- Shorcan Brokers Limited (Exco Shorcan Limited)
- Freedom International Brokerage Inc.
- Garban LLC
- Prebon Yamane Canada Limited
- SG Cowen Corporation
- Tullet & Tokyo, Liberty Plc

To keep some flexibility and an accurate representation of the reality in the regulations, it

is proposed to remove the names of the approved inter-dealer bond brokers from Note 7 of the Notes and Instructions of Schedule 5 of Policy C-3 of the Bourse and to publish those names in the form of a circular. This proposed procedure of updating the list of approved inter-dealer bond brokers from time to time by publishing circulars is identical to the procedure used for many years regarding the *List of countries that qualify under the definition of Basle Accord countries* and the *List of exchanges and associations that qualify as recognized exchanges and associations under the definition of regulated entities*<sup>1</sup>.

### C) Objective

The objective of the proposed amendments to Note 7 of the Notes and Instructions of Schedule 5 of Policy C-3 of the Bourse is to replace the list of approved inter-dealer bond brokers presented in Note 7 by an updated list that will be published from time to time in the form of a circular.

### D) Effect of Proposed Rules

As mentioned previously, the objective of the proposed amendments is to remove from Policy C-3 of the Bourse the list of approved inter-dealer bond brokers and to update the list by publishing a circular. This way, the list will be kept up-to-date without the necessity to proceed with a regulatory amendment every time there is a change to this list.

### E) Public Interest Objective

The objective of the proposed amendments is to keep updated the list of approved inter-dealer bond brokers. Schedule 5 of Policy C-3 of the Bourse will now be completed by approved participants with more accurate information.

Consequently, the proposed amendments are considered to be in the public interest.

## II COMMENTARIES

### A) Effectiveness

The proposed amendments should ensure that the list of approved inter-dealer bond brokers is continually updated so that Schedule 5 of Policy C-3 of the Bourse is completed more efficiently.

### 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 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.

## III REFERENCES

- Policy C-3 of Bourse de Montréal Inc.;
- IDA By-law No. 36;
- IDA Regulation 2100.

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<sup>1</sup> A circular including these lists is published at least once a year by the Bourse. The most recent circular is Circular no. 130-2003 published September 9, 2003 and titled “Acceptable Institutions and Acceptable Counterparties Listing”.

**SCHEDULE 5**  
**NOTES AND INSTRUCTIONS**

1. This schedule is only to include ordinary security trading transactions. **All security borrowing or lending transactions should be disclosed on Schedules 1 or 7.**
2. **Lines 1, 2, 3 and 4 where applicable** - Balances may be reported on a “net” basis (broker by broker) or on a “gross” basis. Balances with a broker or dealer must **not** be netted against those with its affiliated company.
3. **Line 1** - For definition, see General Notes and Definitions.  
Margin on such balances should be provided as follows:
  - (i) Trades settling through a Net Settlement system should be treated as if the other party to the trade was an Acceptable Institution. For example, CNS balances with CDS, and CNS balances with National Securities Clearing Corporation.
  - (ii) All transactions done through CDS outside of the CNS system should be treated as if with a single counterparty to be classified as an Acceptable Counterparty (even if some or all of the other parties qualify as an Acceptable Institution).
  - (iii) Other trades settling on a transaction by transaction basis should be treated as if they were to be settled directly with the other party to the trade. For example, balances arising from trades settled through National Securities Clearing Corporation’s Netted Balance Order or Trade-for-Trade Services, and balances arising from trades settled through Euroclear and Cedel.
4. **Line 2** - This line is not to include non-arms’ length transactions which are to be reported on line 3. For definition of Regulated Entities, see General Notes and Definitions. Margin on balances with Regulated Entities must be provided as follows:
  - (i) In the case of a regular settlement date transaction in the account of a Regulated Entity the amount of margin to be provided, **commencing on regular settlement date**, shall be the equity deficiency of (a) the net market value of all settlement date security positions in the broker’s accounts, and (b) the net money balance on a settlement date basis in the same accounts. In the case of an extended settlement date transaction between a Member and a Regulated Entity, commencing on regular settlement date the position shall be marked to market if the original term of the extended settlement transaction is 30 days or less, otherwise the position should be margined at applicable rates.
  - (ii) Any transaction which has not been confirmed by a Regulated Entity within 15 business days of the trade date shall be margined.
5. **Line 3(a)** - Margin must be provided as outlined for Regulated Entities in note 4 above.
6. **Line 3(b)** - If the affiliated/related company qualifies as a Regulated Entity, then margin must be provided as outlined for Regulated Entities in note 4 above.

If the affiliated/related company qualifies as an Acceptable Counterparty, then margin must be provided in the manner outlined in Schedule 4 Notes and Instructions for Acceptable Counterparties.

If neither of the above, then margin must be provided in the manner outlined in Schedule 4 Notes and Instructions for regular clients’ accounts.

7. **Line 4(a)** - All balances must be margined in the same way as accounts of Acceptable Counterparties (see Schedule 4 Notes and Instructions). Balances, or portions thereof, arising from trading transactions such as futures, options and short sale deposits should also be reported on this line. This line should also include balances with approved inter-dealer bond brokers. ~~The following are approved:~~ Approved inter-dealer bond brokers are those inter-dealer bond brokers that are approved by the Investment Dealers Association of Canada and Bourse de Montréal Inc. The list of approved inter-dealer bond brokers will be published from time to time through the issuance of a regulatory notice.

<del>• Cantor Fitzgerald Partners</del>	<del>• Garban Canada</del>
<del>• Cowen &amp; Company</del>	<del>• M.W. Marshall Securities (Canada) Limited</del>
<del>• Euro Brokers Canada Ltd.</del>	<del>• Prebon Yamane (Canada) Limited</del>
<del>• Exco Shorean Limited</del>	<del>• Tullet &amp; Tokyo Securities (Canada) Limited</del>
<del>• Freedom International Brokerage Inc.</del>	

8. **Line 4(b)** - All balances must be margined in the same way as regular clients' accounts (see Schedule 4 Notes and Instructions). Balances, or portions thereof, arising from trading transactions such as futures, options and short sale deposits should also be reported on this line. This line should also include balances with inter-dealer bond brokers which are not on the ~~approved list~~ above of approved inter-dealer bond brokers.

9. **Line 5** - This line is to include balances arising from mutual fund redemptions or purchase transactions. All balances must be margined in the same way as accounts of Acceptable Counterparties, or as regular client accounts.