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CIRCULAR 166-17
November 14, 2017

REQUEST FOR COMMENTS

AMENDMENTS TO THE RULES AND PROCEDURES OF BOURSE DE MONTRÉAL INC. TO EXPAND THE DEFINITION OF APPROVED PERSONS

The Rules and Policies Committee and the Special Committee of Bourse de Montréal Inc. (the “**Bourse**”) have approved amendments to the Rules and Procedures of the Bourse in order to expand the definition of Approved Person and therefore support the modernization of the market access model of the Bourse. The amendments are also made in order to support the Bourse’s extended trading hours project.

Comments on the proposed amendments must be submitted on January 31, 2018 at the latest. Please submit your comments to:

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Legal Counsel, Montréal Exchange & CDCC
Office of the General Counsel
Bourse de Montréal Inc.
Tour de la Bourse
800 Victoria Square, P.O. Box 61
Montréal, Québec H4Z 1A9
Email: legal@tmx.com

A copy of these comments must also be forwarded to the *Autorité des marchés financiers* (the “**Autorité**”) to:

M^e Anne-Marie Beaudoin
Corporate Secretary
Autorité des marchés financiers
800 Victoria Square, 22nd Floor
Tour de la Bourse, P.O. Box 246
Montréal (Québec) H4Z 1G3
E-mail: consultation-en-cours@lautorite.qc.ca

Please note that comments received by one of these recipients will be transferred to the other recipient and that the Bourse may publish a summary of such comments as part of the self-certification process concerning this file.

Appendices

You will find in the appendices an analysis as well as the text of the proposed amendments. The implementation date of the proposed amendments will be determined by the Bourse, in accordance with the self-certification process as established by the *Derivatives Act* (CQLR, chapter I-14.01).

Regulatory Amendment Process

The Bourse is authorized to carry on business as an exchange and is recognized as a self-regulatory organization (“**SRO**”) by the Autorité. The Board of Directors of the Bourse has delegated to the Rules and Policies Committee of the Bourse its powers to approve and amend the rules, the policies and the procedures, which are thereafter submitted to the Autorité in accordance with the self-certification process as determined by the *Derivatives Act* (CQLR, chapter I-14.01).

In its SRO capacity, the Bourse assumes market regulation and supervision responsibilities of 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.

The Division is under the authority of a Special Committee appointed by the Board of Directors of the Bourse. The Special Committee is empowered to recommend to the Board of Directors the approval or amendment of some aspects of the Rules of the Bourse governing approved participants. The Board of Directors has delegated to the Rules and Policies Committee of the Bourse its powers to approve or amend these Rules upon recommendation from the Special Committee.



**AMENDMENTS TO THE RULES AND PROCEDURES OF BOURSE DE MONTRÉAL INC. TO EXPAND
THE DEFINITION OF APPROVED PERSONS**

**AMENDMENTS TO ARTICLES 1102, 1103, 3001, 3011, 4401, 4405, 6366, 7403, 7407, 7408, 7409,
7414, 7415 AND 7416 OF THE RULES OF BOURSE DE MONTRÉAL INC.**

**AMENDMENTS TO THE PROCEDURES APPLICABLE TO THE EXECUTION OF BLOCK TRADES,
AND
AMENDMENTS TO THE PROCEDURES FOR THE EXECUTION AND REPORTING OF EXCHANGE FOR
PHYSICAL (EFP), EXCHANGE FOR RISK (EFR) AND SUBSTITUTION OF OTC DERIVATIVE
INSTRUMENTS FOR FUTURES CONTRACTS TRANSACTIONS
AND
AMENDMENTS TO THE PROCEDURES APPLICABLE TO THE EXECUTION RISKLESS BASIS CROSS
TRANSACTIONS ON FUTURES CONTRACTS ON S&P/TSX INDICES AND FUTURES CONTRACTS ON
CANADIAN SHARES**

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I. SUMMARY

Bourse de Montréal Inc. (the “Bourse”) is proposing to amend several rule articles and procedures to expand the definition of Approved Person and therefore support the modernization of its market access model by providing better, more efficient access to its global participants. Within the context of the Bourse’s extended hours project, the current definition of Approved Person is restrictive and could limit the trading activities during the early trading hours, especially for block trades and special terms transactions. Thereby, the Bourse is looking to expand its definition to enable employees of its approved participants’ and foreign approved participants’ (collectively, “approved participants”) affiliates or subsidiaries to execute trades on behalf of their approved participant. This initiative will help the Bourse achieve its strategic goals of global expansion and development of new liquidity centres. In doing so, the Bourse will better align itself with the standard practice of international derivatives exchanges. This initiative is in line with the Bourse’s mission to be a client-focused globally-recognized leading derivatives exchange, allowing domestic and international market players to manage their exposure to Canadian assets and to transact the Bourse’s products more efficiently. Consequently, the Bourse proposes to amend its Rules and Procedures to provide solutions to the growing needs of its approved participants.

II. ANALYSIS

a. Background

The globalization of the financial industry has created new challenges for market participants and the Bourse believes that a review of its rules and procedures regarding market access is necessary to stay competitive and relevant in an environment where markets are becoming increasingly interconnected. Many of the Bourse’s approved participants have affiliates and subsidiaries. For many of these participants, the standard business model is a follow-the-sun workflow, meaning that operations are transferred daily between offices located in different time zones, allowing tasks to be handled seamlessly and continuously across all marketplaces, within the organization. This preferred structure provides an uninterrupted customer service and order flow. When evaluating the Bourse’s current definition of Approved Person in the context of the upcoming extended hours project, it has been deemed restrictive to the full application of the follow-the-sun trading model, especially in the context of block trades and special terms transactions during early trading hours. This observation, in parallel with market feedback, has led to the proposed amendments that would result in a broader access for employees of approved participants’ affiliated corporations and subsidiaries, as they may be in a better position to execute trades on behalf of their approved participants during non-local business hours.

The Bourse believes that the expansion of the current definition of Approved Person will help fulfill trading and risk management needs for all its approved participants. For the Bourse, the proposed modifications are expected to:

- Promote growth opportunities for the Canadian derivatives market, especially in light of the extended hours project the Bourse intends to implement. The Bourse considers this definition change to be relevant for trading activity that would be generated during non-local business hours and executed via North American participants.
- Encourage market participation, as the change will facilitate the trade process for block trades and special terms transactions. The current model of processing these types of trades only via an employee of an approved participant is unrealistic for some foreign affiliates (that have already been granted a direct electronic access for all other transactions as clients of an approved participant).
- Align the Bourse's market access model with international standards, as other major derivatives exchanges already provide foreign affiliates with the ability to trade on behalf of a participant for trades such as blocks trades and special terms transactions.

By expanding the definition of Approved Person, the Bourse aims to increase market participation and trading efficiencies, as described above.

b. Description and Analysis of Market Impacts

The Bourse is proposing to expand the eligibility criteria of its Approved Persons, so that employees of an approved participant's affiliated corporations or subsidiaries would be eligible and authorized to execute trades on behalf of an approved participant. This would therefore allow employees of foreign affiliates to handle trading requests originating from their corresponding approved participants' clients and, with the approval of the approved participants and the Bourse, trading requests originating from the clients of the approved participants' affiliates and subsidiaries. This change would also allow them to execute block trades and special terms transactions.

Special terms transactions refer to Exchange for Physical ("EFP"), Exchange for Risk ("EFR") and Riskless Basis Cross ("RBC") transactions. These are the special transaction types offered by the Bourse, for which only Approved Persons are eligible to execute on behalf of the approved participants.

It is important to note that employees of approved participants' affiliates requesting to become Approved Persons must be authorized by the affiliates, the approved participants and by the Bourse. The approval process, whether someone is registering as an employee of the approved

participant or as an employee of the affiliated corporations, remains the same¹. As a result, the jurisdiction of the Regulatory Division (“Division”) of the Bourse would also apply to employees of affiliates designated as Approved Persons. As a reminder, the Division is responsible for the oversight of the application of the Rules and Procedures of the Bourse by the participants and their Approved Persons, employees, agents and clients, and enforcement thereof as needed to ensure market integrity. The approved participants are responsible for the actions and behaviours of the Approved Persons they authorize (including those employees of foreign affiliates).

Market Impacts

In addition to the expected benefits for the Bourse described above, more importantly, the proposed modification will give multiple benefits to market participants:

- The ability for foreign affiliates to trade blocks trades and special terms transactions, eliminating the operational challenges created by the current Rules which limit access to the reporting portal for these transactions to the employees of approved participants. These benefits will definitely increase in the context of the Bourse’s upcoming extended hours projet;
- The potential of leverage skills and trade experience across the participant’s global entities; and
- The use of firm resources in an efficient manner.

A person employed by an affiliated corporation or a subsidiary will not be required to become an Approved Person unless such person wished to arrange block transactions and special terms transaction. Such situation will not impact the other foreign affiliated corporations’ or subsidiaries’ employees who will not register as Approved Persons. These employees will still connect to the Bourse’s trading system through the direct electronic access (“DEA”) for all other trade activities, as is currently the case, being understood that in such a situation, the employees simply act as employees of a client (the affiliate) of the approved participant. However, Approved Persons are subject to the same obligations whether they are employed by an approved participant or an affiliated corporation or subsidiary of an approved participant. In the same way, the approved participant must, among other things, send an employment termination notice to the Bourse for any of its Approved Persons, notwithstanding the employment relationship of the Approved Person.

Notwithstanding the foregoing, it remains the responsibility of the approved participants to ensure that its Approved Persons comply with the applicable licensing and registration laws for the performance of their duties in Canada and abroad. The Bourse does not regulate these matters.

¹ To be more precise, the obligations of foreign affiliate employees designated as Approved Persons will be the same as the current obligations for Foreign Approved Participants’ Approved Persons (<https://reg.m-x.ca/en/approval/sam>)

c. Comparative Analysis

Over the years, derivatives exchanges have adapted their market access model to the globalization of financial markets. In fact, most derivatives exchanges have opened the access beyond their own concept of Approved Participants², allowing affiliates to execute and report blocks trades and special terms transactions, provided that they have received the proper permissions. This allow the special terms transaction workflow to be more efficient for participants operating in a follow-the-sun trading model. By aligning the Bourse with the best practices of international derivative exchange, the proposed amendments will fulfill market participants needs.

The following table summarizes our findings:

Figure 1. Benchmarking of derivative exchanges' access to relevant special terms transactions.

Off-Exchange Transactions & Procedures	Exchange	Rules & Procedures	References	
EFPs/EFRs Reporting	CME	<u>Rule 538</u> One party to the EFRP must be the buyer of the Exchange contract and the seller of (or the holder of the short market exposure associated with) the related position; the other party to the EFRP must be the seller of the Exchange contract and the buyer of (or the holder of the long market exposure associated with) the related position. The Exchange contract and the corresponding related position must be executed for accounts with the same beneficial ownership. A third party may facilitate, as principal, the related position component of an EFRP on behalf of a customer. Except for immediately offsetting foreign currency EFPs executed pursuant to Section K., such third party must be able to demonstrate that the related position was passed through to the customer who received the Exchange contract as part of the EFRP.	http://www.cmegroup.com/rulebook/CBOT/1/5/5.pdf	http://www.cmegroup.com/rulebook/files/cme-group-ra1710-5.pdf
	ICE Europe	The EFP facility allows Members to register as EFP trades, Futures trades linked to physical and forward transactions in energy products. Only Exchange Members are able to register EFP, EFS, Soft Commodity EFRP or Basis Trades on ICE Block, affiliate or group companies may be eligible to trade on behalf of an Exchange Member but only with the specific written permission of that Member which has been received by the Exchange	https://www.theice.com/publicdocs/futures/IFEU_EFP_EFS_Guidance.pdf	https://www.theice.com/publicdocs/contracts/10_SECTION_F.pdf
	ICE US	EFRP transactions must be submitted via the ICE Block® system (see below section related to Block reporting on ICE US). In addition, market participants should be aware that the Commodity Exchange Act and CFTC Regulations impose certain swap reporting obligations which may be applicable to them in connection with EFS/EFR transactions.	https://www.theice.com/publicdocs/futures_us/EFRP_FAQ.pdf	https://www.theice.com/publicdocs/rulebooks/futures_us/4_Trading.pdf
Block Reporting	CME	<u>Rule 526</u> Each party to a block trade must be an Eligible Contract Participant as that term is defined in Section 1a(18) of the Commodity Exchange Act. Eligible Contract Participants generally include exchange members and member firms, broker/dealers, government entities, pension funds, commodity pools, corporations, investment companies, insurance companies, depository institutions and high net-worth individuals. Commodity trading advisors and investment advisors who are registered or exempt from registration, and foreign persons performing a similar role and subject as such to foreign regulation, may participate in block transactions provided they have total assets under management exceeding \$25 million and the block trade is suitable for their customers.	http://www.cmegroup.com/rulebook/files/cme-group-ra1709-5.pdf	

² Defined as "Member", "Exchange Member" or "Participants" in other derivatives exchanges rules and procedures.

	ICE Europe	Block Trades may only be reported to the Exchange by ICE Futures Europe Members who have been permitted to enter Block Trades as appropriate by the Exchange or by their client's Clearing Member. Affiliate or group companies may be eligible to arrange, execute and report Block Trades on behalf of an Exchange Member, provided the specific written permission of the Member to that effect has first been lodged with the Exchange. In such cases, the affiliate or group company is a Representative of the Exchange Member and must comply with all applicable Exchange and regulatory requirements.	https://www.theice.com/publicdocs/futures/ICE_Futures_Block_Trade_Policy.pdf	https://www.theice.com/publicdocs/contractregs/10_SECTION_F.pdf
	ICE US	Must enter blocks into ICE Block platform. In order to obtain access to ICE Block, Clearing Members, customers and third parties must have completed or must complete: (1) an ICE Futures U.S. Electronic User Agreement or ICE Futures U.S. Broker Agreement; and (2) an ICE Futures U.S. Enrollment Form. In addition, Customers and third parties (brokers) must receive permission to submit a block trade directly into ICE Block from the Exchange Clearing Member(s) clearing the specific account(s) involved in the block trade. PLEASE NOTE: such permission must be received for EACH INDIVIDUAL ACCOUNT for which the customer or third party intends to enter a block trade and must be given by the CLEARING MEMBER CLEARING THE ACCOUNT. If the clearing member(s) has so authorized, block trades may be negotiated directly between non-member "eligible contract participants" (customers) (not necessarily Exchange or Clearing Members). Either party, or broker, may report a block trade to the Exchange.	https://www.theice.com/publicdocs/futures_us/exchange_notices/Block_Trade_FAQ.pdf	

d. Proposed Amendments

The Bourse would like to introduce the following amendments to its Rules and Procedures, which are the direct result of the modification of the Approved Person definition:

Article 1102: This article is amended to remove the notions of related firms, partners, shareholders, directors and officers of approved participants in the definition of “Approved Person”. Hence, an Approved Person will be defined as an employee of an approved participant or of an affiliated corporation or subsidiary of an approved participant who has received the approval of the Bourse in compliance with article 7403 of the Rules.

The Division has recommended the deletion of the notions of shareholders, directors and officers of approved participants because it is current practice for the Bourse and the approved participants to consider the Approved Persons as only the individuals that have been approved by the Bourse in compliance with article 7403. The Bourse has also replaced the notion of “related firm”, in the definition of Approved Person, by the wider notion of “affiliated corporations and subsidiaries (article 1103). A related firm as defined by the Rules of the Bourse excludes any foreign entity.

Please note that for the purposes of Rule FOUR, the notions of related firms, partners, shareholders, directors and officers of approved participants will be re-introduced in the term Approved Person (article 4405).

Article 1103: This article is amended to clarify that the definition of affiliated corporation and subsidiary applies to all of the Rules of the Bourse and not only to Rule 1.

Article 3001 and 4405: These articles are amended in order to simplify the drafting of the provisions in order to rely more on the definitions of the Rules.

Article 3011: This article is amended to clarify that the approved participant's obligation of supervision and compliance extends to all approved persons.

Article 4401: This article is amended to provide that the Bourse may serve any document required to be served on an Approved Person located outside of Canada to the approved participant or to any person who is a resident of the Province of Québec and appointed as agent for the service of process.

Article 6366: This article is amended to modernize the terms used (the notion of designated personnel has been removed) and to align the provisions to the current practice of the Bourse and the Division with respect to approvals given to employees and personnel who require access to the Bourse's electronic trading system on behalf of an approved participant.

Article 7403: This article clarifies to whom and how the requirement to be approved by the Bourse as an Approved Person must apply. This article is amended to reflect that the employees of an affiliated corporation or subsidiary of the approved participant may now receive the approval of the Bourse as such. The Bourse also would like to clarify that the status of Approved Person does not limit the rights of an approved participant to give access to the Bourse's electronic trading systems to clients in accordance with article 6366 B). Revised article 7403 also provides that the application form must be signed by the applicant, the approved participant and if applicable by the affiliated corporation or subsidiary of the approved participant who employs the applicant.

Article 7407: This article has been modified and simplified because certain terms and notions used in the existing article are already covered in the new definition of Approved Person. In addition, this article implies that an approved participant may obtain the authorization of the Bourse to allow an Approved Person to transact business for the account of the approved participant's affiliated corporations and subsidiaries, and for the accounts of the affiliated corporations' and subsidiaries' clients. The approved participant will remain liable at all times for the actions of the Approved Person.

Article 7408: This article is amended to remove the concept of employment relationship which is covered in the definition of Approved Person.

Articles 7409 and 7416: These articles have been modified and simplified because certain terms and notions used in the existing articles are already covered in the new definition of Approved Person.

Article 7414: This article is amended in order to add references to the notions of affiliated corporations and subsidiaries and to simplify the drafting of the provisions.

Article 7415: This article is amended mainly (i) to add the notion of affiliated corporations and subsidiaries and (ii) reflect the changes currently proposed by the Bourse regarding the powers of the vice-president of the Division (Request for comments #038-17 published on March 22, 2017).

Article 7416: This article is amended to clarify the scope of the liability of the approved participants.

Finally, the following Procedures have been modified to ascertain that the actions of the approved participants provided in these Procedures are performed or executed by the Approved Person:

- *Procedures applicable to the execution of block trades;*
- *Procedures for the execution and reporting of exchange for physical (EFP), exchange for risk (EFR) and substitution of OTC derivative instruments for futures contracts transactions; and*
- *Procedures applicable to the execution of riskless basis cross transactions on futures contracts on S&P/TSX indices and futures contracts on Canadian shares.*

III. AMENDMENT PROCESS

The amendment process was triggered by the Bourse's desire to democratize and facilitate the access to block trades and special terms transactions for employees of approved participants' affiliated corporations and subsidiaries. The Bourse believes that the proposed amendments will be beneficial in the context of the upcoming extended hours project, by promoting the growth of the Canadian derivatives market and encourage market participation.

IV. IMPACTS ON TECHNOLOGICAL SYSTEMS

None of the proposed amendments have an impact on the Bourse's technological systems or those of its approved participants.

V. OBJECTIVES OF THE PROPOSED AMENDMENTS

As mentioned above, the objectives of the proposed amendments are to:

- Support the extended hours initiative;
- Achieve the Bourse's strategic goal of global expansion;
- Develop new liquidity centres;
- Align the Bourse with the best practices of international derivative exchanges; and

- Ensure market integrity with the expanded jurisdiction of the Division.

VI. PUBLIC INTEREST

The proposed modification to the definition of Approved Person will not affect in any way the integrity of the exchange-traded derivatives markets at the Bourse. The modified definition and the amended articles are clear and fair, while being more adapted to the market needs. The application of the Rules and Procedures of the Bourse and the application of the investigation and disciplinary processes of the Bourse will remain the same whether the Approved Person is the employee of the approved participant or the employee of the approved participant's affiliated corporation or subsidiary. Finally, the approved participant remains at all times liable for its Approved Persons' actions and behaviour, wherever they are located and whether they are the employees of the approved participants or of any of its affiliated corporations or subsidiaries.

VII. EFFICIENCY

The proposed amendments are expected to enhance market efficiency by the facilitation of the trade process. In particular, these amendments will facilitate and speed up the trading of block trades and special terms transactions by Approved Persons who are not only the employees of approved participants, but also the employees of the approved participants' affiliates. By facilitating the execution and reporting of such trades, the Bourse believes that the proposed modification will lead to cost and operational efficiencies.

VIII. PROCESS

The proposed amendments, including this analysis, must be approved by the Bourse's Rules and Policies Committee and submitted to the Autorité des marchés financiers, in accordance with the self-certification process, and to the Ontario Securities Commission for information purposes.

IX. ATTACHED DOCUMENTS

- Appendix 1: Proposed Amendments

1102 Definitions

(07.09.99, 31.01.01, 08.07.02, 02.09.03, 17.06.05, 30.07.13, 17.07.15, 00.00.00)

Approved Persons ~~means the are related firms and,~~ employees of an approved participants or the employee of an affiliated corporation or subsidiary of an approved participant ~~related firms~~ that has been duly approved by the Bourse in accordance with article 7403. ~~ve received the approval of the Bourse.,~~ and partners in and shareholders, directors and officers of approved participants and approved related firms who carry on activities related to securities or futures contracts.

1103 Affiliated Corporations and subsidiaries
(17.12.81, 02.09.03, 00.00.00)

~~For the purposes of this Rule:~~

For the purpose of the Rules, the expression "affiliated corporations and subsidiaries" means the following situations:

a) a corporation is deemed to be an affiliate of another corporation if one of them is the subsidiary of the other or if both are subsidiaries of the same corporation or if each of them is controlled, directly or indirectly by the same person or group of persons;

b) a corporation shall be deemed to be controlled by another person or by a group of persons if:

i) voting securities of the corporation carrying more than 50% of the votes for the election of directors are held, otherwise than by way of security only, by or for the benefit of the other person or group of persons; and

ii) the votes carried by such securities are entitled, if exercised, to elect a majority of the board of directors of the corporation,

and where the Bourse determines that a person shall, or shall not, be deemed to be controlled by another person, then such determination shall be determinant as to their relationship in the application of this rule;

c) a corporation shall be deemed to be a subsidiary of another corporation if:

i) it is controlled by:

A) that other corporation; or

B) that other corporation and one or more other corporations each of which is controlled by that other corporation; or

C) two or more corporations each of which is controlled by that other corporation; or

ii) it is a subsidiary of a corporation which is itself a subsidiary of that other corporation;

d) a person, other than a corporation, shall be deemed to beneficially own securities held by a corporation controlled by him or by an affiliate of such corporation;

e) a corporation shall be deemed to beneficially own securities held by its affiliates;

3001 Bourse Approval

(16.06.87, 02.10.92, 15.03.05, 30.03.10, 00.00.00)

a) Each approved participant must be approved as such by the Special Committee at the time of admission, and must thereafter comply with the conditions required to remain an approved participant as set forth in the regulations of the Bourse in general. Approved participants may be partnerships (referred to as "partnership approved participants") or corporations (referred to as "corporate approved participants");

b) Anyone seeking and obtaining the Bourse's approval thereby undertakes to be bound by the regulations of the Bourse;

c) The Bourse shall give its approval where in its opinion, the approved participant or approved person, has the necessary competence and integrity. In the case of an approved participant, the Bourse must be satisfied that it has available adequate financial resources.

d) For the purpose of this Rule, the term "approved person" ~~also includes refers to employees of an approved participant who are approved by the Bourse pursuant to article 6366 or to the~~ designated representatives who are duly approved pursuant to article 3501.

3011 Surveillance and Compliance
(18.02.03, 30.03.10, 27.11.13, [00.00.00](#))

A) Each approved participant at the time of its approval and so long as it remains approved, must establish and maintain a system to supervise the activities of each employee, [approved person](#) and agent of the approved participant, that is reasonably designed to achieve compliance with the Rules and Policies of the Bourse and with any legislation and regulations applicable to securities and derivative instruments activities. Such a supervisory system must provide, at a minimum, the following:

i) the establishment, maintenance and enforcement of written policies and procedures acceptable to the Bourse regarding the conduct of the type of business in which it engages and the supervision of each employee, [approved person](#) and agent of the approved participant that are reasonably designed to achieve compliance with the applicable legislation and regulation;

ii) procedures reasonably designed to ensure that each employee, [approved person](#) and agent of the approved participant understand their responsibilities under the written policies and procedures in subparagraph (i);

iii) procedures to ensure that the written policies and procedures of the approved participant are amended as appropriate within a reasonable time after changes in applicable laws, regulations, rules and policies and that such changes are communicated to all relevant personnel;

iv) sufficient personnel and resources to fully and properly enforce the written policies and procedures in subparagraph I);

v) the designation of supervisory personnel with the necessary qualifications and authority to carry out the supervisory responsibilities assigned to them;

vi) procedures for follow-up and review to ensure that supervisory personnel are properly executing their supervisory functions;

vii) the maintenance of adequate records of supervisory activity, compliance issues identified and the resolution of those issues.

B) Notwithstanding any other provision in the regulations of the Bourse, each approved participant must comply with the Electronic Trading Rules, especially regarding the risk management and supervisory controls, policies and procedures, the authorization to set or adjust these risk management and supervisory controls, policies and procedures, as well as the use of automated order systems.

C) For the purpose of this article, the term “Electronic Trading Rules” refers to Regulation 23-103 respecting Electronic Trading (Chapter V-1.1, r. 7.1) as well as any applicable policy statement or notice.

4401 Service

(11.03.85, 11.03.92, 15.03.05, 02.09.11, 00.00.00)

a) For the purposes of this Rule :

i) any document required to be served on the Bourse must be addressed to the attention of the Vice President, Legal Affairs (Derivatives), and delivered by messenger or by registered mail, in either case, with proof of receipt signed by a representative of the Bourse;

ii) any document required to be served on any person other than the Bourse must be served by delivering it directly to the person, by messenger or by sending it by registered mail addressed to the person to their latest residence or business address shown in the records of the Bourse;

iii) any document required to be served on an approved person who is located outside of Canada may be served on the approved participant or, as the case may be, on a person who is a resident of Québec and appointed as agent for the service of process.

b) If it is not possible to serve a document in accordance with the requirements of paragraph a) ii), the Bourse may use any other manner of service that is likely to bring the document to the attention of the person.

c) An affidavit signed by an employee or representative of the Bourse attesting that the service requirements of subparagraph a) ii) have been complied with is sufficient proof of service.

4405 Approved Person
(02.09.11, 00.00.00)

For the purpose of this Rule, the term “approved person” also includes:

- ~~a) the refers to employees of an approved participant who are approved by the Bourse pursuant to article 6366, or to~~ designated representatives who are duly approved pursuant to article 3501; and
- ~~a)b) _____-partners and shareholders, directors and officers of approved participants and related firms.~~

6366 Access to Electronic Trading

(25.09.00, 24.09.01, 19.03.02, 03.11.04, 01.03.14, 00.00.00)

A) Only approved participants of the Bourse and restricted permit holders of the Bourse, through their respective clearing approved participants, will have access to the electronic trading for derivatives instruments traded on the Bourse and this, at the following conditions:

a) certify to the Bourse that only their ~~approved persons~~~~designated personnel approved by the Bourse and~~ who has received the required training ~~has~~yes access to the said system;

~~b) certify to the Bourse that only the designated personnel approved by a recognized exchange or association as described in article 7452 6) b) ii) of the Rules of the Bourse and who has received the required training has access to the said system;~~

~~b~~e) put in place an internal security procedure for access to the electronic trading system; and

~~c~~d) obtain the prior approval of the Bourse.

Each approved participant and each restricted permit holder is entirely and exclusively responsible for any unauthorized access to the said system.

~~The approved participant must give notice to the Bourse of the termination of employment of its designated personnel approved by the Bourse and this, within a delay of ten (10) business days from the date of termination of employment.~~

B) Approved participants can authorize clients to transmit electronically orders to the Bourse through the systems of the approved participant, using the approved participant's identifier. In order to do so, the following conditions must be complied with:

1. Definitions

a) For the purposes of this article, a client is defined:

i) as a person, other than those registered as an investment dealer with a securities regulatory authority or approved as a foreign approved participant by the Bourse, having entered into a written agreement with an approved participant which permits to transmit electronically orders to the Bourse through the systems of an approved participant, using the approved participant's identifier;

ii) as an investment dealer registered with a securities regulatory authority, or a foreign approved participant of the Bourse, having entered into a written agreement with an approved participant which permits the investment dealer or foreign approved participant to transmit electronically

orders to the Bourse, through the systems of the approved participant, using the approved participant's identifier.

b) For the purpose of this article, the terms "Electronic Trading Rules" refer to Regulation 23-103 respecting Electronic Trading (Chapter V-1.1, r. 7.1), as well as any applicable policy statement or notice.

c) For the purpose of this article, the terms "Bourse and regulatory requirements" refer to the rules, policies and operational procedures of the Bourse, or to any condition imposed by the Bourse for the purpose of the electronic access provided to a client by an approved participant, as well as to applicable securities or derivatives legislation.

2. Conditions

2.1 An approved participant must:

a) establish, maintain and apply standards that are reasonably designed to manage, in accordance with prudent business practices, the approved participant's risks associated with providing an electronic access to a client, pursuant to paragraph B), including those set out in the Electronic Trading Rules;

b) assess and document that a client meets the standards established by the approved participant, under subparagraph a).

2.2 The standards thus established by an approved participant, under subsection 2.1, shall include that a client must not have an electronic access to the Bourse, pursuant to paragraph B), unless:

a) it has sufficient resources to meet any financial obligations that may result from the use of such electronic access by that client;

b) it has reasonable arrangements in place to ensure that all individuals using such electronic access, on behalf of the client, have reasonable knowledge of and proficiency in the use of the order entry system that facilitates such electronic access;

c) it has reasonable knowledge of and the ability to comply with all applicable Bourse and regulatory requirements;

d) it has reasonable arrangements in place to monitor the entry of orders through such electronic access.

2.3 An approved participant must assess, confirm and document, at least annually, that a client continues to meet the standards established by the approved participant pursuant to subsection 2.1.

2.4 An approved participant must not allow any order to be transmitted to the Bourse, pursuant to paragraph B), unless:

- a) the approved participant is maintaining and applying the standards it has established under subsections 2.1, 2.2 and 2.3;
- b) the approved participant is satisfied that the client meets the standards established by the approved participant under subsections 2.1, 2.2 and 2.3;
- c) the approved participant is satisfied that the client is in compliance with the written agreement entered into with the approved participant, under subsection 2.5;
- d) the order is subject to all applicable requirements pursuant to the Electronic Trading Rules, including those pertaining to the risk management and supervisory controls, policies and procedures of the approved participant.

2.5 An approved participant must not provide to a client an electronic access to the Bourse, pursuant to paragraph B), unless the client has entered into a written agreement with the approved participant, which provides that:

- a) the client's trading activity shall comply with all applicable Bourse and regulatory requirements;
- b) the client's trading activity shall comply with the product limits and credit or other financial limits specified by the approved participant;
- c) the client shall take all reasonable steps to prevent unauthorized access to the technology that facilitates such electronic access;
- d) the client shall not permit any person to use such electronic access provided by the approved participant, other than those authorized by a client as defined in subparagraph 1 a) (ii) or, in the case of a client as defined in subparagraph 1) a) (i), other than those authorized and named by the client under the provision of the agreement referred to in subparagraph h);
- e) the client shall fully cooperate with the approved participant in connection with any investigation or proceeding by the Bourse with respect to trading conducted pursuant to such electronic access, including, upon request by the approved participant, providing access to the Bourse to information that is necessary for the purposes of the investigation or proceeding;
- f) the client shall immediately inform the approved participant, if it fails or expects not to meet the standards set by the approved participant;
- g) when trading for the accounts of another person, under subsection 2.11, the client shall ensure that the orders of the other person are transmitted through the systems of the client and shall be

subject to reasonable risk management and supervisory controls, policies and procedures established and maintained by the client;

h) a client, as defined under subparagraph 1 a) (i), shall immediately provide to the approved participant, in writing, the names of all personnel acting on the client's behalf that it has authorized to enter an order, using the electronic access to the Bourse pursuant to paragraph B), as well as any changes thereof;

i) the approved participant shall have the authority, without prior notice, to reject any order, to vary or correct any order to comply with Bourse and regulatory requirements, to cancel any order entered on the Bourse and to discontinue accepting orders from the client.

2.6 An approved participant must not allow a client to have, or continue to have, an electronic access to the Bourse pursuant to paragraph B), unless it is satisfied that the client has reasonable knowledge of the applicable Bourse and regulatory requirements, and of the standards established by the approved participant under subsections 2.1, 2.2 and 2.3.

2.7 An approved participant must ensure that a client receives any relevant amendments to the applicable Bourse and regulatory requirements, or changes or updates to the standards established by the approved participant under subsections 2.1, 2.2 and 2.3.

2.8 Upon providing to a client an electronic access to the Bourse, pursuant to paragraph B), an approved participant must ensure the client is assigned a client identifier in the form and manner required by the Bourse.

2.9 An approved participant must ensure that an order entered by a client, using such an electronic access to the Bourse, includes the appropriate client identifier.

2.10 An approved participant must promptly inform the Bourse if a person ceases to be a client pursuant to paragraph B).

2.11 An approved participant must not provide an electronic access to the Bourse, pursuant to paragraph B), to a client as defined in subparagraph 1 a) i) that is trading for the account of another person, unless the client is:

a) registered or exempted from registration as an adviser under securities legislation; or

b) a person that

i) carries on business in a foreign jurisdiction;

ii) under the laws of the foreign jurisdiction, may trade for the account of another person, using such an electronic access; and

iii) is regulated in the foreign jurisdiction by a signatory to the International Organization of Securities Commissions' Multilateral Memorandum of Understanding.

2.12 If a client referred to in section 2.11 is using such an electronic access to the Bourse to trade for the account of another person, it must ensure that the orders of the other person are initially transmitted through the systems of the client.

2.13 An approved participant must ensure that when a client is trading for the account of another person, using an electronic access to the Bourse pursuant to paragraph B), the orders of the other person are subject to reasonable risk management and supervisory controls, policies and procedures established and maintained by the client.

3. Responsibility

An approved participant who provides an electronic access to the Bourse, pursuant to paragraph B), remains responsible for compliance with all applicable Bourse and regulatory requirements with respect to the entry and execution of orders from its clients.

4. Miscellaneous

4.1 An approved participant must immediately report to the Bourse, in writing, that it has terminated the electronic access of a client pursuant to paragraph B).

4.2 An approved participant must immediately report to the Bourse, in writing, if it is aware of or has reason to believe that a client has, or may have, breached a material provision of any standard established by the approved participant, or of the written agreement between the approved participant and the client, pursuant to section 2.

**7403 Application for Approval as an Approved Person
(01.04.93, 13.09.05, 22.03.10, 00.00.00)**

Any person employed by an approved participant or an affiliated corporation or subsidiary of an approved participant ~~who of the Bourse and~~ wishing to have access to the electronic trading system of the Bourse in order to act as an approved person in accordance with the Rules must submit an application for approval to obtain the prior approval of the Bourse beforehand. Such an application for approval shall not limit the rights of approved participants to give access to the electronic trading system of the Bourse in accordance with article 6366 b).

The application for approval as an ~~A~~approved ~~P~~person must be submitted in the form prescribed by the Bourse and must be signed by both the applicant ~~and~~ the approved participant and, where applicable, the affiliated corporation or subsidiary of the approved participant that employs the applicant. by whom the applicant is employed.

**7407 General Restrictions applicable to Approved Persons
(01.04.93, 13.09.05, 22.03.10, 00.00.00)**

~~Subject to the~~ Unless prior written approval/consent of the Bourse to the contrary ~~from the Bourse~~, an approved person ~~approved by the Bourse~~ may only transact business for the account of the approved participant for whom the approved person is acting in accordance with article 7403, by whom this person is employed and for the accounts of the approved participant's clients.

~~In all cases, the~~ All transactions made by an approved person must be made on behalf of the approved participant by whom the person is employed, and such approved participant is responsible for all acts and omissions of such approved person. Any act or omission of an approved person which would constitute an infraction of any rule, policy or procedure of the Bourse shall be deemed to be an infraction by the approved participant who was employing this approved person at the time such act or omission occurred.

7408 Joint Accounts

(13.09.05, 22.03.10, 00.00.00)

No approved participant must permit the opening of a joint account in which an approved person ~~employed by such approved participant~~ has an interest of any kind, whether direct or indirect.

7409 Dealings with Other Firms by Approved Persons
(01.04.93, 13.09.05, 22.03.10, 00.00.00)

No approved person ~~approved by the Bourse~~ must maintain, in his own name or any other name, an account in securities, options or futures contracts over which he has, directly or indirectly, trading authority or control with any approved participant other than the approved participant ~~by which he is employed~~, without the written consent of the approved participant ~~his employer~~ as required by article 7454.

7414 Transfers of Approved Persons
(01.04.93, 13.09.05, 22.03.10, 00.00.00)

No approved participant or affiliated corporation or subsidiary of an approved participant must employ an approved -person ~~approved by the Bourse~~ formerly employed by any other approved participant until the Bourse has given its prior approval to such employment. Any application for such consent must be submitted in the form prescribed by the Bourse and must be signed by both the approved person and the approved participant ~~as well as, as the case may be, proposing to employ him by the affiliated corporation or subsidiary of an approved participant proposing to employ him.~~

The Bourse will not approve an application for such consent if it is established that the approved participant ~~by which the approved person was previously employed~~ has not transmitted to the Bourse the notice of termination of employment required pursuant to article 7413.

If the period of time between the date of the approved person termination of employment with ~~the approved participant by which this approved person was employed~~ and the date on which this approved person employment with another approved participant or an affiliated corporation or subsidiary of another approved participant started is ninety (90) days or more, the Bourse will not approve the application for consent filed pursuant to this article and an application for approval pursuant to article 7403 of this Rule shall be submitted to the Bourse.

**7415 Suspension or Revocation of Approval of a Person Approved by the Bourse
(01.04.93, 13.09.05, 22.03.10, 00.00.00)**

If an approved person ~~approved by the Bourse~~ no longer meets the required qualifications or any other condition or requirement that may be prescribed by the Bourse, the Bourse may suspend or revoke its approval.

In the event of a suspension or revocation ~~by the Bourse~~ of the approval of an approved person pursuant to this article or pursuant to article 4105 of the Rules of the Bourse, unless otherwise ordered by the Vice president of the Regulatory Division~~Special Committee~~, the approved participant, the affiliated corporation or subsidiary of the approved participant employing this person must immediately discontinue such employment as an approved person ~~approved by the Bourse~~ and thereafter this person must not be employed in the same capacity by any approved participant, any affiliated corporation or subsidiary of an approved participant without the permission of the Vice president of the Regulatory Division~~Special Committee~~. Any such permission may be revoked at any time by the Vice president of the Regulatory Division~~Special Committee~~.

The approval by the Bourse of any person shall be automatically revoked when this person, following the termination of this person employment with an approved ~~participant~~person, an affiliated corporation or subsidiary of an approved participant, does not reintegrate an employment requiring such an approval with an other approved participant, an affiliated corporation or subsidiary of the other approved participant within a delay of ninety (90) days following the date on which this person employment was terminated.

7416 Approved Participant's Responsibility
(01.04.93, 13.09.05, 22.03.100, 00.00.00)

Each approved participant must ensure that all its employees, approved persons and designated representatives who are duly approved pursuant to article 3501 ~~approved by the Bourse or by any other regulatory or self-regulatory organization~~ ~~employed by it~~ comply with the provisions of all Rules and Policies of the Bourse.

1102 Definitions**(07.09.99, 31.01.01, 08.07.02, 02.09.03, 17.06.05, 30.07.13, 17.07.15, 00.00.00)**

Approved Person means the employee of an approved participant or the employee of an affiliated corporation or subsidiary of an approved participant that has been duly approved by the Bourse in accordance with article 7403.

1103 Affiliated Corporations and subsidiaries
(17.12.81, 02.09.03, 00.00.00)

For the purpose of the Rules, the expression "affiliated corporations and subsidiaries" means the following situations:

- a) a corporation is deemed to be an affiliate of another corporation if one of them is the subsidiary of the other or if both are subsidiaries of the same corporation or if each of them is controlled, directly or indirectly by the same person or group of persons;
- b) a corporation shall be deemed to be controlled by another person or by a group of persons if:
 - i) voting securities of the corporation carrying more than 50% of the votes for the election of directors are held, otherwise than by way of security only, by or for the benefit of the other person or group of persons; and
 - ii) the votes carried by such securities are entitled, if exercised, to elect a majority of the board of directors of the corporation,

and where the Bourse determines that a person shall, or shall not, be deemed to be controlled by another person, then such determination shall be determinant as to their relationship in the application of this rule;

c) a corporation shall be deemed to be a subsidiary of another corporation if:

i) it is controlled by:

A) that other corporation; or

B) that other corporation and one or more other corporations each of which is controlled by that other corporation; or

C) two or more corporations each of which is controlled by that other corporation; or

ii) it is a subsidiary of a corporation which is itself a subsidiary of that other corporation;

d) a person, other than a corporation, shall be deemed to beneficially own securities held by a corporation controlled by him or by an affiliate of such corporation;

e) a corporation shall be deemed to beneficially own securities held by its affiliates;

3001 Bourse Approval
(16.06.87, 02.10.92, 15.03.05, 30.03.10, 00.00.00)

- a) Each approved participant must be approved as such by the Special Committee at the time of admission, and must thereafter comply with the conditions required to remain an approved participant as set forth in the regulations of the Bourse in general. Approved participants may be partnerships (referred to as "partnership approved participants") or corporations (referred to as "corporate approved participants");
- b) Anyone seeking and obtaining the Bourse's approval thereby undertakes to be bound by the regulations of the Bourse;
- c) The Bourse shall give its approval where in its opinion, the approved participant or approved person, has the necessary competence and integrity. In the case of an approved participant, the Bourse must be satisfied that it has available adequate financial resources.
- d) For the purpose of this Rule, the term "approved person" also includes the designated representatives who are duly approved pursuant to article 3501.

3011 Surveillance and Compliance
(18.02.03, 30.03.10, 27.11.13, 00.00.00)

A) Each approved participant at the time of its approval and so long as it remains approved, must establish and maintain a system to supervise the activities of each employee, approved person and agent of the approved participant, that is reasonably designed to achieve compliance with the Rules and Policies of the Bourse and with any legislation and regulations applicable to securities and derivative instruments activities. Such a supervisory system must provide, at a minimum, the following:

i) the establishment, maintenance and enforcement of written policies and procedures acceptable to the Bourse regarding the conduct of the type of business in which it engages and the supervision of each employee, approved person and agent of the approved participant that are reasonably designed to achieve compliance with the applicable legislation and regulation;

ii) procedures reasonably designed to ensure that each employee, approved person and agent of the approved participant understand their responsibilities under the written policies and procedures in subparagraph (i);

iii) procedures to ensure that the written policies and procedures of the approved participant are amended as appropriate within a reasonable time after changes in applicable laws, regulations, rules and policies and that such changes are communicated to all relevant personnel;

iv) sufficient personnel and resources to fully and properly enforce the written policies and procedures in subparagraph I);

v) the designation of supervisory personnel with the necessary qualifications and authority to carry out the supervisory responsibilities assigned to them;

vi) procedures for follow-up and review to ensure that supervisory personnel are properly executing their supervisory functions;

vii) the maintenance of adequate records of supervisory activity, compliance issues identified and the resolution of those issues.

B) Notwithstanding any other provision in the regulations of the Bourse, each approved participant must comply with the Electronic Trading Rules, especially regarding the risk management and supervisory controls, policies and procedures, the authorization to set or adjust these risk management and supervisory controls, policies and procedures, as well as the use of automated order systems.

C) For the purpose of this article, the term “Electronic Trading Rules” refers to Regulation 23-103 respecting Electronic Trading (Chapter V-1.1, r. 7.1) as well as any applicable policy statement or notice.

4401 Service

(11.03.85, 11.03.92, 15.03.05, 02.09.11, 00.00.00)

a) For the purposes of this Rule :

i) any document required to be served on the Bourse must be addressed to the attention of the Vice President, Legal Affairs (Derivatives), and delivered by messenger or by registered mail, in either case, with proof of receipt signed by a representative of the Bourse;

ii) any document required to be served on any person other than the Bourse must be served by delivering it directly to the person, by messenger or by sending it by registered mail addressed to the person to their latest residence or business address shown in the records of the Bourse;

iii) any document required to be served on an approved person who is located outside of Canada may be served on the approved participant or, as the case may be, on a person who is a resident of Québec and appointed as agent for the service of process.

b) If it is not possible to serve a document in accordance with the requirements of paragraph a) ii), the Bourse may use any other manner of service that is likely to bring the document to the attention of the person.

c) An affidavit signed by an employee or representative of the Bourse attesting that the service requirements of subparagraph a) ii) have been complied with is sufficient proof of service.

4405 Approved Person
(02.09.11, 00.00.00)

For the purpose of this Rule, the term “approved person” also includes:

- a) the designated representatives who are duly approved pursuant to article 3501; and
- b) partners and shareholders, directors and officers of approved participants and related firms.

6366 Access to Electronic Trading

(25.09.00, 24.09.01, 19.03.02, 03.11.04, 01.03.14, 00.00.00)

A) Only approved participants of the Bourse and restricted permit holders of the Bourse, through their respective clearing approved participants, will have access to the electronic trading for derivatives instruments traded on the Bourse and this, at the following conditions:

- a) certify to the Bourse that only the approved persons who has received the required training have access to the said system;
- b) put in place an internal security procedure for access to the electronic trading system; and
- c) obtain the prior approval of the Bourse.

Each approved participant and each restricted permit holder is entirely and exclusively responsible for any unauthorized access to the said system.

B) Approved participants can authorize clients to transmit electronically orders to the Bourse through the systems of the approved participant, using the approved participant's identifier. In order to do so, the following conditions must be complied with:

1. Definitions

a) For the purposes of this article, a client is defined:

i) as a person, other than those registered as an investment dealer with a securities regulatory authority or approved as a foreign approved participant by the Bourse, having entered into a written agreement with an approved participant which permits to transmit electronically orders to the Bourse through the systems of an approved participant, using the approved participant's identifier;

ii) as an investment dealer registered with a securities regulatory authority, or a foreign approved participant of the Bourse, having entered into a written agreement with an approved participant which permits the investment dealer or foreign approved participant to transmit electronically orders to the Bourse, through the systems of the approved participant, using the approved participant's identifier.

b) For the purpose of this article, the terms "Electronic Trading Rules" refer to Regulation 23-103 respecting Electronic Trading (Chapter V-1.1, r. 7.1), as well as any applicable policy statement or notice.

c) For the purpose of this article, the terms "Bourse and regulatory requirements" refer to the rules, policies and operational procedures of the Bourse, or to any condition imposed by the

Bourse for the purpose of the electronic access provided to a client by an approved participant, as well as to applicable securities or derivatives legislation.

2. Conditions

2.1 An approved participant must:

a) establish, maintain and apply standards that are reasonably designed to manage, in accordance with prudent business practices, the approved participant's risks associated with providing an electronic access to a client, pursuant to paragraph B), including those set out in the Electronic Trading Rules;

b) assess and document that a client meets the standards established by the approved participant, under subparagraph a).

2.2 The standards thus established by an approved participant, under subsection 2.1, shall include that a client must not have an electronic access to the Bourse, pursuant to paragraph B), unless:

a) it has sufficient resources to meet any financial obligations that may result from the use of such electronic access by that client;

b) it has reasonable arrangements in place to ensure that all individuals using such electronic access, on behalf of the client, have reasonable knowledge of and proficiency in the use of the order entry system that facilitates such electronic access;

c) it has reasonable knowledge of and the ability to comply with all applicable Bourse and regulatory requirements;

d) it has reasonable arrangements in place to monitor the entry of orders through such electronic access.

2.3 An approved participant must assess, confirm and document, at least annually, that a client continues to meet the standards established by the approved participant pursuant to subsection 2.1.

2.4 An approved participant must not allow any order to be transmitted to the Bourse, pursuant to paragraph B), unless:

a) the approved participant is maintaining and applying the standards it has established under subsections 2.1, 2.2 and 2.3;

b) the approved participant is satisfied that the client meets the standards established by the approved participant under subsections 2.1, 2.2 and 2.3;

c) the approved participant is satisfied that the client is in compliance with the written agreement entered into with the approved participant, under subsection 2.5;

d) the order is subject to all applicable requirements pursuant to the Electronic Trading Rules, including those pertaining to the risk management and supervisory controls, policies and procedures of the approved participant.

2.5 An approved participant must not provide to a client an electronic access to the Bourse, pursuant to paragraph B), unless the client has entered into a written agreement with the approved participant, which provides that:

a) the client's trading activity shall comply with all applicable Bourse and regulatory requirements;

b) the client's trading activity shall comply with the product limits and credit or other financial limits specified by the approved participant;

c) the client shall take all reasonable steps to prevent unauthorized access to the technology that facilitates such electronic access;

d) the client shall not permit any person to use such electronic access provided by the approved participant, other than those authorized by a client as defined in subparagraph 1 a) (ii) or, in the case of a client as defined in subparagraph 1) a) (i), other than those authorized and named by the client under the provision of the agreement referred to in subparagraph h);

e) the client shall fully cooperate with the approved participant in connection with any investigation or proceeding by the Bourse with respect to trading conducted pursuant to such electronic access, including, upon request by the approved participant, providing access to the Bourse to information that is necessary for the purposes of the investigation or proceeding;

f) the client shall immediately inform the approved participant, if it fails or expects not to meet the standards set by the approved participant;

g) when trading for the accounts of another person, under subsection 2.11, the client shall ensure that the orders of the other person are transmitted through the systems of the client and shall be subject to reasonable risk management and supervisory controls, policies and procedures established and maintained by the client;

h) a client, as defined under subparagraph 1 a) (i), shall immediately provide to the approved participant, in writing, the names of all personnel acting on the client's behalf that it has authorized to enter an order, using the electronic access to the Bourse pursuant to paragraph B), as well as any changes thereof;

i) the approved participant shall have the authority, without prior notice, to reject any order, to vary or correct any order to comply with Bourse and regulatory requirements, to cancel any order entered on the Bourse and to discontinue accepting orders from the client.

2.6 An approved participant must not allow a client to have, or continue to have, an electronic access to the Bourse pursuant to paragraph B), unless it is satisfied that the client has reasonable knowledge of the applicable Bourse and regulatory requirements, and of the standards established by the approved participant under subsections 2.1, 2.2 and 2.3.

2.7 An approved participant must ensure that a client receives any relevant amendments to the applicable Bourse and regulatory requirements, or changes or updates to the standards established by the approved participant under subsections 2.1, 2.2 and 2.3.

2.8 Upon providing to a client an electronic access to the Bourse, pursuant to paragraph B), an approved participant must ensure the client is assigned a client identifier in the form and manner required by the Bourse.

2.9 An approved participant must ensure that an order entered by a client, using such an electronic access to the Bourse, includes the appropriate client identifier.

2.10 An approved participant must promptly inform the Bourse if a person ceases to be a client pursuant to paragraph B).

2.11 An approved participant must not provide an electronic access to the Bourse, pursuant to paragraph B), to a client as defined in subparagraph 1 a) i) that is trading for the account of another person, unless the client is:

a) registered or exempted from registration as an adviser under securities legislation; or

b) a person that

i) carries on business in a foreign jurisdiction;

ii) under the laws of the foreign jurisdiction, may trade for the account of another person, using such an electronic access; and

iii) is regulated in the foreign jurisdiction by a signatory to the International Organization of Securities Commissions' Multilateral Memorandum of Understanding.

2.12 If a client referred to in section 2.11 is using such an electronic access to the Bourse to trade for the account of another person, it must ensure that the orders of the other person are initially transmitted through the systems of the client.

2.13 An approved participant must ensure that when a client is trading for the account of another person, using an electronic access to the Bourse pursuant to paragraph B), the orders of the other person are subject to reasonable risk management and supervisory controls, policies and procedures established and maintained by the client.

3. Responsibility

An approved participant who provides an electronic access to the Bourse, pursuant to paragraph B), remains responsible for compliance with all applicable Bourse and regulatory requirements with respect to the entry and execution of orders from its clients.

4. Miscellaneous

4.1 An approved participant must immediately report to the Bourse, in writing, that it has terminated the electronic access of a client pursuant to paragraph B).

4.2 An approved participant must immediately report to the Bourse, in writing, if it is aware of or has reason to believe that a client has, or may have, breached a material provision of any standard established by the approved participant, or of the written agreement between the approved participant and the client, pursuant to section 2.

**7403 Application for Approval as an Approved Person
(01.04.93, 13.09.05, 22.03.10, 00.00.00)**

Any person employed by an approved participant or an affiliated corporation or subsidiary of an approved participant who wishes to have access to the electronic trading system of the Bourse in order to act as an approved person in accordance with the Rules must submit an application for approval to the Bourse beforehand. Such an application for approval shall not limit the rights of approved participants to give access to the electronic trading system of the Bourse in accordance with article 6366 b).

The application for approval as an Approved Person must be submitted in the form prescribed by the Bourse and must be signed by both the applicant, the approved participant and, where applicable, the affiliated corporation or subsidiary of the approved participant that employs the applicant.

**7407 General Restrictions applicable to Approved Persons
(01.04.93, 13.09.05, 22.03.10, 00.00.00)**

Subject to the prior written approval of the Bourse to the contrary, an approved person may only transact business for the account of the approved participant for whom the approved person is acting in accordance with article 7403, and for the accounts of the approved participant's clients.

In all cases, the approved participant is responsible for all acts and omissions of such approved person. Any act or omission of an approved person which would constitute an infraction of any rule, policy or procedure of the Bourse shall be deemed to be an infraction by the approved participant

7408 Joint Accounts
(13.09.05, 22.03.10, 00.00.00)

No approved participant must permit the opening of a joint account in which an approved person has an interest of any kind, whether direct or indirect.

**7409 Dealings with Other Firms by Approved Persons
(01.04.93, 13.09.05, 22.03.10, 00.00.00)**

No approved person must maintain, in his own name or any other name, an account in securities, options or futures contracts over which he has, directly or indirectly, trading authority or control with any approved participant other than the approved participant, without the written consent of the approved participant as required by article 7454.

**7414 Transfers of Approved Persons
(01.04.93, 13.09.05, 22.03.10, 00.00.00)**

No approved participant or affiliated corporation or subsidiary of an approved participant must employ an approved person formerly employed by any other approved participant until the Bourse has given its prior approval to such employment. Any application for such consent must be submitted in the form prescribed by the Bourse and must be signed by both the approved person and the approved participant as well as, as the case may be, by the affiliated corporation or subsidiary of an approved participant proposing to employ him.

The Bourse will not approve an application for such consent if it is established that the approved participant has not transmitted to the Bourse the notice of termination of employment required pursuant to article 7413.

If the period of time between the date of the approved person termination of employment with and the date on which this approved person employment with another approved participant or an affiliated corporation or subsidiary of another approved participant started is ninety (90) days or more, the Bourse will not approve the application for consent filed pursuant to this article and an application for approval pursuant to article 7403 of this Rule shall be submitted to the Bourse.

**7415 Suspension or Revocation of Approval of a Person Approved by the Bourse
(01.04.93, 13.09.05, 22.03.10, 00.00.00)**

If an approved person no longer meets the required qualifications or any other condition or requirement that may be prescribed by the Bourse, the Bourse may suspend or revoke its approval.

In the event of a suspension or revocation of the approval of an approved person pursuant to this article or pursuant to article 4105 of the Rules of the Bourse, unless otherwise ordered by the Vice president of the Regulatory Division, the approved participant, the affiliated corporation or subsidiary of the approved participant employing this person must immediately discontinue such employment as an approved person and thereafter this person must not be employed in the same capacity by any approved participant, any affiliated corporation or subsidiary of an approved participant without the permission of the Vice president of the Regulatory Division. Any such permission may be revoked at any time by the Vice president of the Regulatory Division.

The approval by the Bourse of any person shall be automatically revoked when this person, following the termination of this person employment with an approved participant, an affiliated corporation or subsidiary of an approved participant, does not reintegrate an employment requiring such an approval with another approved participant, an affiliated corporation or subsidiary of the other approved participant within a delay of ninety (90) days following the date on which this person employment was terminated.

7416 Approved Participant's Responsibility
(01.04.93, 13.09.05, 22.03.100, 00.00.00)

Each approved participant must ensure that all its employees, approved persons and designated representatives who are duly approved pursuant to article 3501 comply with the provisions of all Rules and Policies of the Bourse.

PROCEDURES FOR THE EXECUTION OF BLOCK TRADES

1. Block Trades

- a) Once a block trade has been arranged, in accordance with the predetermined minimum volume threshold level as determined and published by the Bourse, details of the block trade must be reported to the Bourse by contacting a market official of the Bourse's Market Operations Department at 1-888-693-6366 or at 514 871-7871 within the period of time prescribed by the Bourse.
- b) Approved ~~P~~participants for both the seller and buyer must complete and electronically submit the Block Trade Reporting Form, available on the Bourse's web site at http://www.m-x.ca/rob_formulaire_en.php, to the Bourse's Market Operations Department for validation.
- c) A market official will check the validity of the block trade details submitted by the ~~approved participant~~ Approved Participant(s).
- d) Confirmation by a market official of a block trade transaction will not preclude the Bourse from initiating disciplinary procedures in the event that the transaction is subsequently found to have been made other than in compliance with the rules.
- e) Once the block trade has been validated and processed, the following information with respect to the block trade will be disseminated by the Bourse:
 - i) date and time of transaction;
 - ii) security(ies) or derivative instrument(s) and contract month(s);
 - iii) price of each contract month(s) and strike price(s) (as applicable); and
 - iv) volume of each contract month.
- f) Upon the Bourse's request, the ~~approved participant~~ Approved Participant who arranges a block trade must provide satisfactory evidence that the block trade has been arranged in accordance with the Rules of the Bourse. Failure to provide satisfactory evidence of compliance with these Rules may result in the initiation of disciplinary action.
- g) In all circumstances, a block trade can only be arranged by the Approved Participant's Approved Persons.

In accordance with article 6380 4) of the Rules of the Bourse, the following are the eligible securities and derivative instruments, the relevant prescribed time delays and the minimum volume thresholds for the execution of block trades.

Table 1: Prescribed time delays and minimum volume thresholds for eligible securities and derivative instruments for the execution of block trades

ELIGIBLE SECURITIES AND DERIVATIVE INSTRUMENTS	PRESCRIBED TIME DELAY	MINIMUM VOLUME THRESHOLD
	(As soon as practicable and in any event within the following time delay)	
30-Day Overnight Repo Rate Futures Contracts (ONX)	15 minutes	1,000 contracts
Overnight Index Swap Futures Contracts (OIS)	15 minutes	200 contracts
Ten-Year Government of Canada Bond Futures Contracts (CGB)	15 minutes	1,500 contracts
Two-Year Government of Canada Bond Futures Contracts (CGZ)	15 minutes	500 contracts
30-Year Government of Canada Bond Futures Contracts (LGB)	15 minutes	500 contracts
Five-Year Government of Canada Bond Futures Contracts (CGF)	15 minutes	500 contracts
Options on Three-Month Canadian Bankers Acceptance Futures Contracts	15 minutes	2,000 contracts
Canadian Crude Oil Futures Contracts	15 minutes	100 contracts
Futures contracts on the FTSE Emerging Markets Index	15 minutes	100 contracts
Three-Month Canadian Bankers' Acceptance Futures Contracts quarterlies five through eight (BAX Reds)	15 minutes	1,000 contracts
Three-Month Canadian Bankers' Acceptance Futures Contracts quarterlies nine through twelve (BAX Greens)	15 minutes	500 contracts

2. Block trades priced at a basis to the index close (BIC)

- a) Once a BIC has been arranged, in accordance with the predetermined minimum volume threshold level as determined and published by the Bourse, details of the BIC must be reported to the Bourse by contacting a market official of the Bourse's Market Operations Department at 1-888-693-6366 or at 514 871-7871 within the period of time prescribed by the Bourse. Approved Pparticipants for both the seller and buyer must subsequently complete and submit a Block Trade Reporting Form as stipulated above, specifying the agreed-upon basis in lieu of the price. The Bourse will disseminate the relevant information through its website at www.m-x.ca.
- b) Approved Pparticipants for both the seller and buyer must also complete and submit a second Block Trade Reporting Form to the Bourse's Market Operations Department once the closing price of the relevant index has been published.
- c) In addition to the agreed-upon basis, this second form must specify both the closing level of the index and the price of the BIC to the nearest 0.01 index point increment. The Bourse will disseminate the relevant information both through its website at www.m-x.ca and also through its High Speed Vendor Feed.
- d) In all circumstances, a BIC can only be arranged by the Approved Participant's Approved Persons.

In accordance with article 6380 6) of the Rules of the Bourse, the following are the eligible securities and derivative instruments, the relevant prescribed time delays, the minimum volume thresholds and the second Block Trade Reporting Form filing requirements for the BIC.

Table 2: Prescribed time delays, minimum volume thresholds and second Block Trade Reporting Form filing requirements for eligible securities and derivative instruments for the execution of block trades priced at a basis to the index close (BIC)

ELIGIBLE SECURITIES AND DERIVATIVE INSTRUMENTS	PRESCRIBED TIME DELAY	MINIMUM VOLUME THRESHOLD	FILING OF SECOND BLOCK TRADE REPORTING FORM
	(As soon as practicable and in any event within the following time delay)		
Futures contracts on the FTSE Emerging Markets Index	15 minutes	100 contracts	After 9:30 p.m. GMT on the next trading day
Futures contracts on S&P/TSX indices and sectorial indices	15 minutes	100 contracts	After 4:00 p.m. ET on the same trading day

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PROCEDURES FOR THE EXECUTION AND REPORTING OF EXCHANGE FOR PHYSICAL (EFP), EXCHANGE FOR RISK (EFR) AND SUBSTITUTION OF OTC DERIVATIVE INSTRUMENTS FOR FUTURES CONTRACTS TRANSACTIONS

The purpose of the following procedures is to explain as fully as possible: a) the requirements of article 6815 of the Rules of Bourse de Montréal Inc. (the Bourse) relating to the execution of transactions involving the exchange of futures contracts for a corresponding cash position (Exchange for Physical (EFP)) and of transactions involving the exchange of futures contracts for a corresponding over-the-counter derivative instrument (Exchange for Risk (EFR)); and b) of article 6815A of the Rules of the Bourse relating to the execution of transactions involving the substitution of an over-the-counter derivative instrument for futures contracts. In all circumstances, such transactions can only be arranged by the Approved Participant's Approved Persons. Therefore, Approved Participants must ensure that all ~~its of their Approved Person~~ employees who are involved in the execution of this type of transactions are fully aware of these procedures. Any violation of the requirements set forth in articles 6815 and 6815A of the Rules of the Bourse and in these procedures could result in disciplinary action being taken by the Bourse.

Exchanges for Physicals (EFP)

An EFP is a transaction whereby two parties enter into an agreement in which one party purchases a cash market position and simultaneously sells a corresponding futures contract position and the other party sells the cash market position and simultaneously purchases the corresponding futures contract position.

The Bourse permits EFP transactions on the following instruments:

- Interest rate futures contracts**
- Futures contracts on S&P/TSX indices & on the FTSE Emerging Markets Index**
- Futures contracts on carbon dioxide equivalent (CO₂e) units (MCX)**
- Futures contracts on Canadian crude oil**
- Canadian Share Futures Contracts**

Exchange for Risk (EFR)

An EFR is a transaction whereby two parties enter into an agreement in which one party purchases an over-the-counter derivative instrument and simultaneously sells a corresponding futures contract and the other party sells the over-the-counter derivative instrument and simultaneously purchases the corresponding futures contract.

The Bourse permits EFR transactions on the following instruments:

- Interest rate futures contracts**
- Futures contracts on S&P/TSX indices & on the FTSE Emerging Markets Index**
- Futures contracts on carbon dioxide equivalent (CO₂e) units (MCX)**
- Futures contracts on Canadian crude oil**
- Canadian Share Futures Contracts**

Substitution of an OTC derivative instrument for futures contracts (Substitution)

A Substitution is a transaction whereby two parties enter into an agreement to substitute an over-the-counter derivatives position for a corresponding futures contract position. The party who is the buyer of the over-the-counter derivative instrument substitutes this position and buys the corresponding futures contract and the other party who is the seller of the over-the-counter derivative instrument substitutes this position and sells the corresponding futures contract.

The Bourse currently permits Substitution transactions on futures contracts on carbon dioxide equivalent (CO₂e) units.

Pricing the Cash component of an EFP or the Risk component of an EFR or of a Substitution

The cash component of an EFP or the risk component of an EFR or of a Substitution is priced at such level that is mutually agreed upon by the two parties to the transaction.

The futures contract leg of an EFP, an EFR or a Substitution must be priced at a fair and reasonable level in light of factors such as, but not limited to, the size of such an EFP, EFR or Substitution transaction, the currently traded prices and bid and ask prices in the same contract at the relevant time, the volatility and liquidity of the relevant market and the general market conditions prevailing at the time the EFP, EFR or Substitution transaction is executed.

The cash component of an EFP or the risk component of an EFR or of a Substitution transaction must be the futures contract underlying interest, a by-product of this underlying interest or a similar product that is reasonably correlated to the underlying interest of the futures contract being exchanged or the futures contract itself where the use of the underlying interest is not practical.

Also, the number of futures contracts exchanged must be approximately equivalent to the quantity or value of the cash market position being exchanged in an EFP transaction or of the risk component being exchanged in the case of an EFR or substituted in the case of a Substitution. Approved Participants that are parties to an EFP, EFR or Substitution transaction may be required to demonstrate such equivalency.

Acceptable EFP, EFR and Substitution Transactions

In order to have an EFP, EFR or Substitution transaction accepted by the Bourse, the transaction must satisfy the following conditions:

- There must be separate but integrally related futures contracts and cash (in the case of an EFP) or risk component (in the case of an EFR or Substitution) transactions.
- The exchange or substitution transaction must be done between two separate accounts that must satisfy at least one of the following criteria:
 - accounts have different beneficial ownership;
 - accounts have the same beneficial ownership but are under separate control; or
 - accounts are under a common control but involve separate legal entities which may or may not have the same beneficial ownership.

If the parties to an EFP, EFR or Substitution transaction involve the same legal entity, same beneficial owner or separate legal entities under common control, the **A**pproved **P**articipant (or the parties themselves) must be able to demonstrate that the EFP, EFR or Substitution transaction is a legitimate arm's length transaction.

- The cash market instrument leg of the EFP or the risk component leg of an EFR transaction must provide for a transfer of ownership of the cash market instrument of an EFP or of the over-the-counter derivative instrument of the EFR to the buyer of this instrument and the delivery of this instrument must take place within a reasonable period of time (in accordance with cash market or over-the-counter practice).
- The relation between the prices of the futures contract and of the cash instrument leg of the EFP or the risk component leg of the EFR or Substitution transaction and the relevant prices in either market must be established.
- If he does not have actual possession of the cash instrument, in the case of an EFP transaction, or of the over-the-counter derivative instrument, in the case of an EFR transaction, before the execution of the transaction, the seller of this cash instrument or over-the-counter derivative instrument must be able to demonstrate his ability to satisfy his delivery obligation.
- The Bourse may request that **A**pproved **P**articipants involved in an EFP, EFR or a Substitution transaction demonstrate that the related cash position and futures position is reasonably correlated.

Acceptable Cash Components for the purpose of an EFP Transaction

In order to have an EFP transaction accepted by the Bourse, the cash component of the transaction must satisfy the following conditions:

- **For interest rate futures contracts:** fixed income instruments that have a reasonable price correlation, maturities as well as risk characteristics that parallel the instrument underlying the futures contract being exchanged or the futures contract itself where the use of the underlying interest is not practical. Such instruments include, but are not necessarily limited to, money market instruments including asset backed commercial paper, Government of Canada and Federal Crown Corporation fixed income instruments, provincials fixed income instruments, investment grade corporates including Maple Bonds and mortgage instruments including collateralized mortgage obligations (CMOs). Fixed income instruments denominated in the currency of a G7 member country that satisfy these conditions are also acceptable.
- **For futures contracts on S&P/TSX indices and on the FTSE Emerging Markets index:** stock baskets must be reasonably correlated to the underlying index with a correlation coefficient (R) of 0.90 or more. Furthermore, these stock baskets must represent a weight of at least 50% of the underlying index or must include at least 50% of the securities of the underlying index. The notional value of the basket must be fairly equal to the value of the futures contract component of the exchange transaction. Exchange-traded funds are also acceptable, provided they mirror the index futures contract against which the EFP transaction is made.
- **For futures contracts on carbon dioxide equivalent (CO₂e) units:** The eligible Canadian CO₂e units are regulated emitters' credits, and / or offset credits

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- **For futures contracts on Canadian crude oil:**
 - For Canadian heavy crude oil: specific domestic crude oil streams with not less than 2.5% nor more than 3.5% sulfur by weight, not less than 19° API gravity nor more than 22° API gravity. Domestic crude oil streams include, but are not limited to: Western Canadian Select, Western Canadian Blend, Lloyd Blend, Bow River, Cold Lake Blend and Wabasca.
- **For Canadian share futures contracts:** The underlying stock of the futures contract being exchanged.

Permissible Over-the-Counter Derivative Instruments for the purpose of an EFR Transaction

A list of permissible over-the-counter derivative instruments for the purpose of effecting an EFR transaction is included in Appendix I.

Permissible Over-the-Counter Derivative Instruments for the purpose of a Substitution Transaction

- **For futures contracts on carbon dioxide equivalent (CO₂e) units:** Over-the-counter derivative instruments on carbon dioxide equivalent units that are reasonably correlated (with a correlation coefficient (R) of 0.80 or more) to the futures contract being substituted.

As a guideline, the time period used to calculate the correlation coefficient must be based on daily price data for a period of at least six (6) months or, if weekly price data are used, for a period of at least one (1) year.

Reporting an EFP, EFR or Substitution transaction to the Bourse

EFP, EFR and Substitution transactions must be reported to the Bourse's Market Operations Department for approval and subsequent input into the Montréal Automated System (SAM). Approved **P**participants for both the seller and buyer must complete and submit to the Market Operations Department the Special Terms Transaction Reporting Form prescribed by the Bourse. This form is available on the Web sites of the Bourse at <http://sttrf-frots.m-x.ca/> and at <http://sttrf-frots.m-x.ca/> in the case of futures contracts on carbon dioxide equivalent (CO₂e) units. If the EFP, EFR or Substitution transaction is executed before the closing of the trading session of the futures contract involved in the transaction, the Special Terms Transaction Reporting Form must be submitted within one hour upon determination of all the relevant terms of the trade. If the EFP, EFR or Substitution transaction is made after the closing of the trading session, the Special Terms Transaction Reporting Form must be submitted no later than 10:00 a.m. (Montréal time) on the next trading day.

If the Special Terms Transaction Reporting Form is not accurately filled out with all the relevant information required by the Market Operations Department of the Bourse, the transaction will not be approved neither recorded in SAM and the **A**pproved **P**participant will have to resubmit a new Special Terms Transaction Reporting Form correctly completed.

Once correctly completed Special Terms Transaction Reporting Forms have been received, the Market Operations Department will validate the transaction. The Bourse has the discretion to refuse an EFP, EFR or Substitution transaction if it deems that it is not in compliance with the requirements, as the case may be, of articles 6815 or 6815A of the Rules of the Bourse or of these procedures. In case of refusal, the Market Operations Department will ensure that the Approved Pparticipant(s) involved in the EFP, EFR or Substitution transaction are promptly informed of such refusal and of the reasons for it.

Once an EFP, an EFR or Substitution transaction has been validated and has been entered into SAM by the Market Operations Department, the following information with respect to this transaction will be disseminated by the Bourse on its Web sites at http://www.m-x.ca/dailycrosses_en.php or at http://www.mcx.ca/trading_transactionReport in the case of case of futures contracts on carbon dioxide equivalent (CO₂e) units:

- Date and time of transaction
- product description (code);
- Contract month(s);
- Volume of the transaction; and
- Transaction price

Trade validation and market dissemination by the Bourse of an EFP, EFR or Substitution transaction will not preclude the Bourse from initiating any investigation and, as the case may be, disciplinary procedures in the event that the transaction is subsequently found to have been made other than in accordance with the requirements of articles 6815 and 6815A of the Rules of the Bourse or of these procedures.

Audit Trail Requirements for EFP, EFR and Substitution Transactions

Approved Pparticipants who enter into an EFP, EFR or Substitution transaction must maintain all documents relevant to the futures contracts and corresponding cash market or over-the-counter derivative instruments transactions and must be able to promptly provide copies of such documents to the Regulatory Division of the Bourse upon request. Documents that may be requested include, but are not limited to, the following:

- Futures contracts order tickets;
- Futures contracts account statements;
- Documentation customarily generated in accordance with the cash market, over-the-counter or other relevant market practices such as cash account statements, trade confirmation statements, ISDA[®] Master Agreements or other documents of title;
- Third party documentation to support proof of payment or allowing to verify that the ownership title of the related cash market position or, as the case may be, of the related over-the-counter derivative instrument position was transferred from the seller to the buyer. This may include, but is not limited to canceled checks, bank statements; cash account statements and cash instruments clearing corporation documents (e.g.: CDS Depository and Clearing Services Inc.).

All futures contracts order tickets must clearly indicate the time of execution of the EFP, EFR or Substitution transactions.

APPENDIX 1
Exchange for Risk: List of permissible OTC derivative instruments

	Bond Futures Contracts	Short-Term Interest Rate Futures Contracts	Stock Index Futures/ Single Stock Futures	Commodities Futures
Vanilla Interest Rate Swaps	√	√		
Equity and Index Swaps			√	
Commodities Swaps or Forwards				√
Forward Rate Agreements - FRAs		√		
OTC Options and Options Strategies	√	√	√	

The following outlines the characteristics of OTC derivative instruments that would be acceptable for EFR transaction purposes.

Swaps:

Interest rate

- standard plain vanilla OTC swap;
- written under the terms of an ISDA® Master Agreement;
- providing for regular fixed rate payments against regular floating rate payments;
- All swap payments must be denominated in the currency of a G7 member country;
- The OTC interest rate swap must be reasonably correlated with an R = 0.70 or greater so that the futures contract is a suitable instrument for hedging the OTC derivative instrument transactions. As a guideline, the time period used to calculate the correlation must be based on daily price data for a period of at least six (6) months or, if weekly price data are used, for a period of at least one (1) year.

Equities and indices

- standard plain vanilla OTC swap;
- written under the terms of an ISDA® Master Agreement;
- providing for regular fixed rate payments or regular floating rate payments against the positive or negative performance of a basket of securities or a stock index;
- All swap payments must be denominated in the currency of a G7 member country;
- The OTC equity or index swap must be reasonably correlated with an R = 0.90 or greater so that the futures contract is a suitable instrument for hedging the OTC derivative instrument transaction. As a guideline, the time period used to calculate the correlation must be based on daily price data for a period of at least six (6) months or, if weekly price data are used, for a period of at least one (1) year.

Swaps or Forwards on Commodities:

- written under the terms of an ISDA® Master Agreement;
- The OTC commodities swap or forward must be reasonably correlated with an R = 0.80 or greater so that the futures contract is a suitable instrument for hedging the OTC derivative instrument transaction. As a guideline, the time period used to calculate the

correlation must be based on daily price data for a period of at least six (6) months or, if weekly price data are used, for a period of at least one (1) year.

Forward Rate Agreements (FRAs):

- conventional FRA;
- written under the terms of an ISDA® Master Agreement;
- predetermined interest rate;
- agreed start/end date;
- have a defined interest (repo) rate.

OTC Options and OTC Option Strategies:

- Any individual or combination of OTC equity or stock index option positions can form the risk transaction component of an EFR transaction against any of the Bourse's stock index or single stock futures contracts.
- Any individual or combination of OTC bond, interest rate swap or FRA options (e.g. caps, floors, collars) can form the risk component of an EFR transaction against any of the Bourse's interest rate futures contracts

Stock baskets used in an EFR transaction must have the following characteristics:

- be reasonably correlated to the index underlying the futures contract with an $R = 0.90$ or greater and the time period used to calculate the correlation must be based on daily price data for a period of at least six (6) months or, if weekly price data is used, for a period of at least one (1) year;
- represent at least 50% of the weight of the index underlying the futures contract or include at least 50% of the stocks comprised in the index underlying the futures contract;
- have a notional value equivalent to the value of the futures contract component of the EFR transaction;
- exchange-traded funds (ETFs) are acceptable provided that they mirror stock index products traded on the Bourse.

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PROCEDURES APPLICABLE TO THE EXECUTION OF RISKLESS BASIS CROSS TRANSACTIONS ON FUTURES CONTRACTS ON S&P/TSX INDICES AND FUTURES CONTRACTS ON CANADIAN SHARES

FUTURES CONTRACTS ON S&P/TSX INDICES:

Bourse de Montréal Inc. (the Bourse) authorizes riskless basis cross transactions on listed futures contracts on S&P/TSX indices. The Bourse provides ~~approved participant~~Approved Participants with a facility that permits the purchase/sale of index futures contracts against cash instruments for an average cash market price plus a pre-negotiated basis. A riskless basis cross has no impact on the existing cash market as the initiated operation results in a riskless transaction in the books of the ~~approved participant~~Approved Participant.

~~Approved participant~~Approved Participants receiving requests from clients who cannot or do not want to hold cash securities in their accounts but who wish to acquire market exposure in the most efficient way possible (either on the cash or exchange-traded fund “ETF” markets) are authorized to do a riskless basis cross. The sole intent and purpose of the riskless basis cross is to allow market participants to use the attributes of the underlying cash market to take on the market position requested by the client and then to replicate it through the use of futures contracts thus leaving the ~~approved participant~~Approved Participant with no resulting market position and the client with a final position in the futures contract.

Once the terms of the riskless basis cross have been agreed to with the client, the ~~approved participant~~Approved Participant begins the transaction by taking a position in the cash instruments in its own account on behalf of the client. The ~~approved participant~~Approved Participant then has to execute the riskless basis cross transaction (by contacting the Market Operations Department of the Bourse) and allocate the futures contract position, functionally equivalent to the cash market exposure, (as initially requested by the client) into the client’s account.

In all circumstances, a riskless basis cross transaction can only be arranged by the Approved Participant’s Approved Persons.

~~Approved participant~~Approved Participants must apply the following procedures when executing riskless basis crosses:

- The ~~approved participant~~Approved Participant accepts the order to execute a transaction on behalf of its client (who wishes to acquire index market exposure with a resulting futures position) for an average cash market price plus a pre-negotiated basis (spread).
- The terms of the transaction should either be a fixed pre-negotiated basis established prior to execution of the transaction or a guaranteed (by the ~~approved participant~~Approved Participant to the client) closing or executed price

of the cash component in which circumstance the basis will be adjusted accordingly.

- The ~~approved participant~~Approved Participant begins the transaction by acquiring exposure (long or short) in the cash market on its client's behalf, using securities, baskets of securities, index participation units, or exchange-traded funds comprised of the underlying securities of the related index futures contracts that constitute the riskless basis cross. For the purpose of this type of operation, these instruments are accumulated in the ~~approved participant~~Approved Participant's account.
- The cash portion of the riskless basis cross must be comprised of at least 80 percent of the components constituting the underlying index (e.g. for the S&P/TSX 60™ Index, at least 48 constituents must be part of the transaction)
- It is generally expected that, for the purpose of the riskless basis cross, ~~approved participant~~Approved Participants will use all of the index components when taking position in the cash market. However, there are circumstances which may prevent an ~~approved participant~~Approved Participant from acquiring certain index components, and the ~~approved participant~~Approved Participant may therefore exclude these index components from the cash position. Examples of such circumstances include: an index component is on the ~~approved participant~~Approved Participant's or client's internal restricted list (due to a corporate action involving the issuer of the given component), a specific index component is halted from trading during the day of the operation, market conditions of a specific index component are inadequate (e.g. if liquidity is insufficient to execute the transaction) or any other justifiable situation of a similar nature.
- The cash portion of the riskless basis cross must be reasonably correlated to the underlying index with a correlation coefficient (R) of 90% or more.
- At the time agreed with its client the ~~approved participant~~Approved Participant executes a riskless basis cross transaction for a predetermined quantity of index futures contracts. One side of this riskless basis cross transaction offsets the ~~approved participant~~Approved Participant's position in the underlying cash market and the other side of the trade represents the total market exposure requested by the client. The resulting "unhedged" index futures contracts position is then allocated into the client's account.
- A riskless basis cross transaction may only be executed during the regular trading hours of the underlying instrument until the end of the extended session at the Toronto Stock Exchange (TSX). The transaction has to be executed the same day as and after the completion of the cash portion of the operation. In the event that the riskless basis cross operation has to be executed over a several day period, the futures portion of the operation has to be proportionate to the underlying portion at any given execution day.

- To execute the riskless basis cross transaction, the ~~approved participant~~Approved Participant must provide the details of the concluded transaction to the Market Operations Department of the Bourse by filling out and submitting through the Bourse's Web page <http://sttrf-frots.m-x.ca/> the prescribed "Special Terms Transaction Reporting Form". Once submitted, the riskless basis cross transaction will be registered by the Market Operations Department in the trading system. The transaction will then be specially marked and displayed in the systems (trading platform and data vendors) at the post trade recap level.
- Once concluded and registered, the riskless basis cross transaction will appear in the "Transaction Report" maintained on the Bourse's Web page http://www.m-x.ca/dailycrosses_en.php.
- There is no minimum time required to display (by the ~~approved participant~~Approved Participant) the riskless basis cross transaction prior to execution. As soon as it is reported to the Market Operations Department at the Bourse, the transaction will be registered and displayed without delay.
- There is no minimum size restriction for a riskless basis cross transaction.
- There is no requirement for a riskless basis cross transaction to be executed within either the bid and ask or the daily high and low prices.
- The riskless basis cross transaction is excluded from the daily settlement price procedures, but is included in the daily volume figures.
- ~~Approved participant~~Approved Participants involved in a basis cross transaction may be required to demonstrate to the Bourse:
 - that the transaction is comprised of at least 80% of the components constituting the underlying index; and
 - that the futures portion of the transaction replicates the underlying index and that components of the underlying index that are not included in the riskless basis cross were justifiably excluded (as described above) from the transaction; and
 - that the cash portion of the riskless basis cross has a minimum correlation of 90% to the underlying index; and
 - whether the transaction's pre-negotiated basis was fixed and established prior to the execution of the transaction or resulted from a guaranteed closing or executed price of the cash component; and
 - that the cash position and the futures contracts position (resulting from the riskless basis cross transaction) are properly recorded in both the ~~approved participant~~Approved Participant's and client's accounts.
- While the ~~approved participant~~Approved Participant must acquire the cash market position before executing the futures contract leg, the Bourse does not impose any time limit for the retention or liquidation by the ~~approved~~

~~participant~~Approved Participant of the cash market position. Once the riskless basis cross has been completed, the ~~approved participant~~Approved Participant may manage the positions on its books as it sees fit.

FUTURES CONTRACTS ON CANADIAN SHARES:

Bourse de Montréal Inc. (the Bourse) authorizes riskless basis cross transactions on listed Share Futures contracts. The Bourse provides ~~approved participant~~Approved Participants with a facility that permits the purchase/sale of Share Futures contracts against the underlying cash instrument for an average cash market price plus a pre-negotiated basis. A riskless basis cross has no impact on the existing cash market as the initiated operation results in a riskless transaction in the books of the ~~approved participant~~Approved Participant.

~~Approved participant~~Approved Participants receiving requests from clients who cannot or do not want to hold cash securities in their accounts but who wish to acquire market exposure in the most efficient way possible on the cash market are authorized to do a riskless basis cross. The sole intent and purpose of the riskless basis cross is to allow market participants to use the attributes of the underlying cash market to take on the market position requested by the client and then to replicate it through the use of futures contracts thus leaving the ~~approved participant~~Approved Participant with no resulting market position and the client with a final position in the futures contract.

Once the terms of the riskless basis cross have been agreed to with the client, the ~~approved participant~~Approved Participant begins the transaction by taking a position in the cash instruments in its own account on behalf of the client. The ~~approved participant~~Approved Participant then has to execute the riskless basis cross transaction (by contacting the Market Operations Department of the Bourse) and allocate the futures contract position, functionally equivalent to the cash market exposure, (as initially requested by the client) into the client's account.

In all circumstances, a riskless basis cross transaction can only be arranged by the Approved Participant's Approved Persons.

~~Approved participant~~Approved Participants must apply the following procedures when executing riskless basis crosses:

- The ~~approved participant~~Approved Participant accepts the order to execute a transaction on behalf of its client (who wishes to acquire a cash market exposure with a resulting futures position) for an average cash market price plus a pre-negotiated basis (spread).
- The terms of the transaction should either be a fixed pre-negotiated basis established prior to execution of the transaction or a guaranteed (by the ~~approved participant~~Approved Participant to the client) closing or executed price of the cash component in which circumstance the basis will be adjusted accordingly.

- The ~~approved participant~~Approved Participant begins the transaction by acquiring exposure (long or short) in the cash market on its client's behalf, using the underlying security of the related Share Futures contract that constitute the riskless basis cross. For the purpose of this type of operation, these instruments are accumulated in the ~~approved participant~~Approved Participant's account.
- The cash portion of the riskless basis cross must be comprised of the underlying stock of the Share Futures contract.
- At the time agreed with its client the ~~approved participant~~Approved Participant executes a riskless basis cross transaction for a predetermined quantity of Share Futures contracts. One side of this riskless basis cross transaction offsets the ~~approved participant~~Approved Participant's position in the underlying cash market and the other side of the trade represents the total market exposure requested by the client. The resulting "unhedged" Share Futures contracts position is then allocated into the client's account.
- A riskless basis cross transaction may only be executed during the regular trading hours of the underlying instrument until the end of the extended session at the Toronto Stock Exchange (TSX). The transaction has to be executed the same day as and after the completion of the cash portion of the operation. In the event that the riskless basis cross operation has to be executed over a several day period, the futures portion of the operation has to be proportionate to the underlying portion at any given execution day.
- To execute the riskless basis cross transaction, the ~~approved participant~~Approved Participant must provide the details of the concluded transaction to the Market Operations Department of the Bourse by filling out and submitting through the Bourse's Web page http://www.m-x.ca/efp_formulaire_en.php the prescribed "Special Terms Transaction Reporting Form". Once submitted, the riskless basis cross transaction will be registered by the Market Operations Department in the trading system. The transaction will then be specially marked and displayed in the systems (trading platform and data vendors) at the post trade recap level.
- Once concluded and registered, the riskless basis cross transaction will appear in the "Transaction Report" maintained on the Bourse's Web page http://www.m-x.ca/dailycrosses_en.php.
- There is no minimum time required to display (by the ~~approved participant~~Approved Participant) the riskless basis cross transaction prior to execution. As soon as it is reported to the Market Operations Department at the Bourse, the transaction will be registered and displayed without delay.
- There is no minimum size restriction for a riskless basis cross transaction.
- There is no requirement for a riskless basis cross transaction to be executed within either the bid and ask or the daily high and low prices.
- The riskless basis cross transaction is excluded from the daily settlement price procedures, but is included in the daily volume figures.

- ~~Approved participant~~Approved Participants involved in a basis cross transaction may be required to demonstrate to the Bourse:
 - whether the transaction's pre-negotiated basis was fixed and established prior to the execution of the transaction or resulted from a guaranteed closing or executed price of the cash component; and
 - that the cash position and the futures contracts position (resulting from the riskless basis cross transaction) are properly recorded in both the ~~approved participant~~Approved Participant's and client's accounts.
- While the ~~approved participant~~Approved Participant must acquire the cash market position before executing the futures contract leg, the Bourse does not impose any time limit for the retention or liquidation by the ~~approved participant~~Approved Participant of the cash market position. Once the riskless basis cross has been completed, the ~~approved participant~~Approved Participant may manage the positions on its books as it sees fit.