

MONTRÉAL EXCHANGE - REGULATORY DIVISION

# Newsletter

The Bourse is recognized by the *Autorité des marchés financiers* (the “Autorité”) as an exchange and a self-regulatory organization. The Regulatory Division (the “Division”) is a separate business Service of the Bourse responsible for carrying out its regulatory functions and operations. The Division consists of three Services: examinations, market analysis and investigations, and regulatory and disciplinary affairs.

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

This newsletter covers the period from January 1 to June 30, 2018.

**Enjoy!**

## Topics

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- Approved Participants
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### Regulatory Activities

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- Market Analysis and Investigations
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### Observed Best Practices in Investigations and Disciplinary Proceedings

### Coming Events Organized by the Division

## Events Organized by the Division

- A meeting was held in Montreal on February 20 with the Division's User Group and a phone meeting was held on May 30.
- The Division is a member of the Intermarket Surveillance Group, an international group of exchanges and self-regulatory organizations in North America, Asia and Europe, and it hosted the Group's semi-annual conference from May 16 to 18.
- The Division held its annual conference, entitled "Derivatives Exchange" / "Parlons Dérivés" in Toronto on June 12 and in Montreal on June 14.

## Publications of the Division

- Participant admissions and resignations ([circulars 018-18](#), [019-18](#), [039-18](#), [040-18](#), [106-18](#) and [107-18](#))
- Disciplinary decisions ([circular 011-18](#) and [099-18](#))
- Applications sought from interested and qualified persons in order to fill one seat on the Special Committee with an independent member ([circular 021-18](#))
- Mission, vision, compliance priorities and 2018 Regulatory Division initiatives ([circular 027-18](#))
- Reminder concerning LOPR reportable dates ([circular 036-18](#))
- Frequently asked questions regarding the identification of orders (article 6376) ([circular 048-18](#))
- Request for comments on a proposal to amend article 4002 of the Rules of the Bourse initiated by the Division ([circular 072-18](#))
- Update to the password policy for the large open position reporting (LOPR) portal and the Gatekeeper portal ([circular 095-18](#))
- Self-certification of amendments to the Rules and Procedures of the Bourse in order to expand the definition of Approved Person ([circular 111-18](#))

## Regulatory Fees

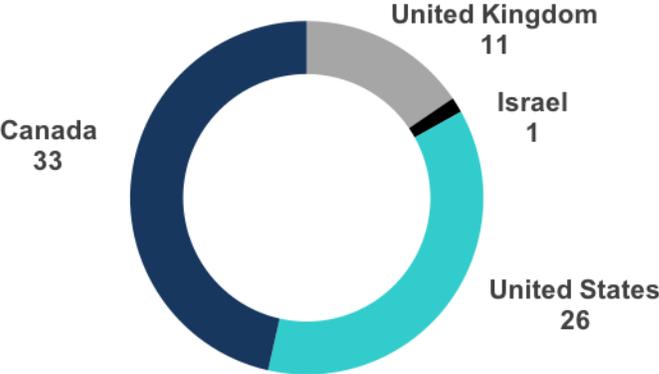
- Amendments to the fees resulting from late filing of documents (subsection 2 of the List of Fees) so that any second or subsequent occurrence of late filing of a termination notice within the same calendar year will now be subject to a fee of \$250 (per late business day, per individual, for a maximum of \$2,500) instead of \$500 (for a maximum of \$5,000) and to article 2.5 in order to clarify its reach for the late filing of any information or document required by the Division (circular 184-17)
- Amendment to article 2.5 of the List of Fees relating to the late filing of information or required documents to clarify that the fee of \$250 per late business day is applicable starting from the business day after the applicable due date (circular 061-18)
- Reimbursement, by the Division, of part of the regulatory fees paid by the approved participants that were registered in the records of the Bourse as at December 31, 2017 and that were active on the market of the Bourse in 2017

# Profile of Approved Participants and Persons

## Approved Participants

As at June 30, 2018, following the admissions and resignations of participants, the Bourse had a total of 71 approved participants, distributed geographically as follows:

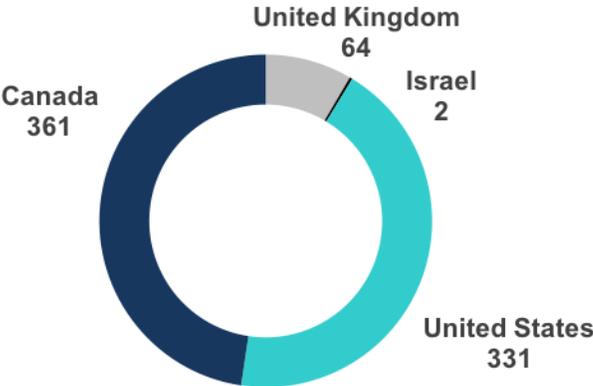
Figure 1  
**Approved Participants as at June 30, 2018**



## Approved Persons

As at June 30, 2018, the Bourse had 758 approved persons, distributed geographically as follows:

Figure 2  
**Approved Persons as at June 30, 2018**



# Regulatory Activities

## Examinations

The Examinations Service manages examinations of derivative product transactions by approved participants of the Bourse de Montréal Inc. (the “Bourse”). The purpose of these examinations is to validate the compliance of approved participants of the Bourse with its Rules, Policies and Procedures. Who is targeted by these examinations? How do they work?

Each approved participant of the Bourse is subject to an examination by examiners with the Regulatory Division. The main goal of these examinations is to ensure that the derivative product transactions executed by the participant comply with the trading rules and procedures of the Bourse and, in particular, with Rule Six, which governs trading in derivative products. Furthermore, new participants are examined by the Bourse within 18 months of being approved by the Special Committee of the Regulatory Division.

Each participant is subject to the same examination components. However, certain components may not apply, based on the participant’s peer group.

The examination calendar is based on the potential risks of the approved participants, the Division’s priorities, and the examination cycle, which determines that each participant must be examined every three years. Each year, the Bourse uses a risk-based approach to determine which participants will be examined in the course of the year.

From January 1 to June 30, 2018, the Division carried out 18 examinations leading to findings. Frequent findings include:

- Failure to provide a unique identifier for each client with direct electronic access (see [article 6366](#) and [circular 083-17](#));
- Incorrect identification of the type of account for certain orders (see [article 6376](#));
- Failure to include all the accounts with positions that need to be reported in LOPR or to assign the appropriate account beneficial owner for several accounts (see the [LOPR Regulatory Requirements Guide](#));
- Access to the trading system granted to employees who are not approved persons of the Bourse (see [article 6366](#)); and
- Incomplete manuals and procedures.

During the period, the Examinations Service also issued management advice on the frequency of certain supervisory activities (see [article 3011](#)). Management advice takes the form of a recommendation made by the Examinations Service to a participant that reflects observed best practices on a regulatory issue.

**During the period from January 1 to June 30, 2018, the Division made a total of 18 examinations that led to findings.**

## Review of the Examination Program

The Division's Examinations Service, with the assistance of an external consulting firm specialized in risk management, is improving the method used to assess the risks of its participants in order to bring the Division's method into better alignment with best practices.

Risk ratings are being established on the basis of factors such as inherent risk, control design, and residual risk. The risk ratings are calculated using a more dynamic risk analysis process that will associate participants' key practices with their tolerance for risk. Participants' risk will be assessed annually, and a risk rating with a "critical" level has been added to the evaluation grid.

In addition, changes have been made to the questionnaire completed by participants as part of the initial documents request. Questions have been added so that the questionnaire better reflects today's derivatives market and collects more detailed information.

## Market Analysis and Investigations

The Market Analysis Service conducts market surveillance in order to detect potential breaches of regulations and it monitors insider trading activities on the Bourse. The Market Analysis Service also reviews transactions on the Bourse to determine whether participants are complying with trading rules and principles, and whether such transactions involve abusive or manipulative trading practices.

An 8.5% increase was observed in the average daily trading volume compared to the same period in 2017, for an average daily volume for the period of January to June 2018 of 428,600 contracts, compared to 395,020 contracts for the same period of 2017. From January 1 to June 30, 2018, the Division monitored over 8,700,746 transactions executed on the Bourse.

The Market Analysis Service is also responsible for conducting preliminary reviews of all the complaints received, from a variety of sources. In the period from January 1 to June 30, 2018, the Division received six complaints, five of which were from clients. Furthermore, a complaint from a client received in the second quarter of 2017 was transferred to the Investigations Service.

**In the period from January 1 to June 30, 2018, the Division received 6 complaints, 5 of which were submitted by clients.**

The Investigations Service may open an investigation when a potential regulatory violation has been detected during an examination or as a result of a market analysis.

From January 1 to June 30, 2018, the Division opened three investigations, including one for access to the Bourse's trading system by employees of participants who were not approved persons, the supervision of the activities of clients with direct electronic access, and the manipulation of closing prices. During the same period, the Division completed two investigations.

**In the period from January 1 to June 30, 2018, the Division completed 2 investigations and opened 3.**

## Disciplinary Proceedings

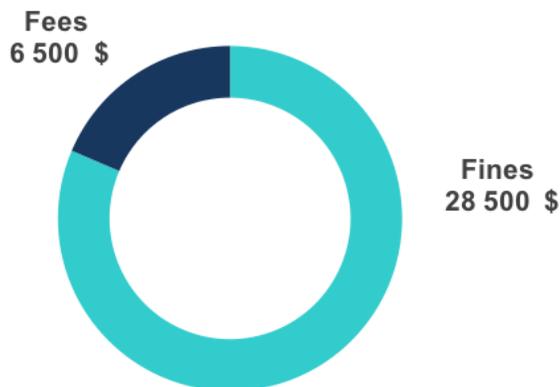
Disciplinary proceedings may be initiated when, during an investigation, the Division concludes that there has been an infraction under the Rules of the Bourse or regulations (for example, Regulation 23-103).

### Disciplinary complaints

In the period from January 1 to June 30, 2018, two disciplinary decisions were rendered. The first disciplinary decision dealt with failing to record and/or maintain a record of telephone conversations related to trading in securities and derivative instruments listed on the Bourse ([circular 011-18](#)). The Vice-President of the Division accepted the offer of settlement. The second disciplinary decision concerned the failure by an approved participant to report immediately to the Vice-President of the Division that its accounts exceeded the position limit for the first contract month on Two-Year Government of Canada Bond Futures, and that it had failed to establish and maintain a system designed to supervise the activities of each employee that is reasonably designed to achieve compliance with the Rules and Policies of the Bourse ([circular 099-18](#)). The Disciplinary Committee of the Bourse accepted the offer of settlement negotiated between the approved participant and the Division.

Figure 3

### Fees and Fines Imposed as Part of Disciplinary Matters



## Fines for Minor Violations

In the period from January 1 to June 30, 2018, the Division did not use the process for imposing fines for minor violations.

In the period from January 1 to June 30, 2018, 2 disciplinary matters were settled. The fines paid by participants for these disciplinary matters totalled \$28,500, plus \$6,500 for the reimbursement of costs. All these amounts were collected by the Division and paid into the fines fund.

## Imposition of Late Fees

The following table provides detailed information on all the fees imposed by the Division from January 1 to June 30, 2018 for the late filing of documents:

Figure 4

### Late Fees

January 1 to June 30, 2018	Occurrences	Participants	Total amount imposed
Termination of employment notice submitted more than 10 business days after the termination date	6	3	\$ 10,500
Late reporting of corporate amendments	0	0	\$ 0
Report pertaining to the accumulation of positions for derivative instruments (LOPR) <sup>1</sup>	19	13	\$ 8,250
Semi-monthly report for over-the-counter options (Rule Nine)	2	1	\$ 1,800
Information or document required by the Division	0	0	\$ 0
Late filing of the certification or notice of non-compliance as part of the special inspection on LOPR	0	0	\$ 0

## Observed Best Practices in Investigations and Disciplinary Proceedings

Approved participants, their employees and approved persons must comply with the obligation to provide information as set forth in Rule Four of the Bourse ([Rule Four](#)). Upon the request of the Division or one of its representatives, these persons must provide forthwith all information related to their business, trades, positions or conduct, as well as to the identity, business, trades or positions of any of their customers and employees and the customers of persons for whom they provide account maintenance services. Furthermore, the level of their collaboration is one of the factors taken into consideration when assessing a fair and appropriate penalty in disciplinary matters (see the [Guidelines on Disciplinary Sanctions](#)).

In its investigations and disciplinary matters, the Division has noted the following best practices:

<sup>1</sup> Three Canadian participants and ten foreign participants

- Meeting the required deadlines or contacting the Division as soon as possible, since late fees may be imposed (Section 2 of the List of Fees);
- Providing complete explanations and being able to provide evidence;
- Not hesitating to ask questions or requesting more information; and
- Lastly, being frank and honest. The fact that a participant or person tries to cover up the violation or fails to transmit relevant information to the Division is an aggravating factor in the determination of an appropriate penalty.

## Coming Events Organized by the Division

### **User Group Meetings**

Meeting with the Group on October 10, 2018 and meeting on December 11, 2018

### **Division's Compliance Forum at the Canadian Annual Derivatives Conference in Quebec City**

November 26, 20

## For More Information:

REGULATORY DIVISION

[reg.m-x.ca/en/](http://reg.m-x.ca/en/)

T: 514-787-6530

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

Great Britain and France: 00 800 36 15 35 35 #46530

[info.mxr@tmx.com](mailto:info.mxr@tmx.com).