

MONTREAL EXCHANGE - REGULATORY DIVISION

Newsletter

The Bourse de Montreal Inc. (the “Bourse”) is recognized by the Autorité des marchés financiers (the “AMF”) as an exchange and a self-regulatory organization. The Regulatory Division (the “Division”) is a separate business unit of the Bourse responsible for carrying out its regulatory functions and operations. The Division consists of three units: 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, 2019.

Enjoy!

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Events organized by the Division

- Classroom training on the Division's Participant Portal was provided in Montreal on February 18, 2019 and Toronto on February 20, 2019.
- A meeting was held in Montreal on March 1, 2019 and two telephone meetings were held on April 16 and May 29, 2019 with the Division's Regulatory User Group.
- A first meeting of a sub-group of the Division's Regulatory User Group was held on June 27, 2019 to discuss challenges related to artificial intelligence and machine learning.
- The Division held the fourth edition of the conference "Parlons dérivés / Derivatives Exchange" on June 4, 2019 in Toronto and June 11, 2019 in Montreal.

Publications of the Division

- **Approved Participant admissions and resignations** (circulars [016-19](#), [025-19](#), [059-19](#) and [068-19](#))
- **Position limits** (circulars [009-19](#), [022-19](#), [048-19](#), [051-19](#), [052-19](#), [063-19](#), [069-19](#), [088-19](#), [093-19](#) and [094-19](#))
- **LOPR and the Gatekeeper portal**
 - Reports pertaining to the accumulation of positions for derivative instruments (LOPR) (circular [037-19](#))
- **Amendments to the Rules and Policies of the Bourse**
 - Amendment to article 4.308 of the Rules of the Bourse (circulars [029-19](#), [044-19](#) and [061-19](#))
 - Amendment to article 6.208 of the Rules of the Bourse (circular [079-19](#))
 - Amendment to article 6.200 of the Rules of the Bourse (circular [075-19](#))
- **List of Fees of the Bourse**
 - Amendments to the List of Fees (effective March 1, 2019) (circular [023-19](#))
 - Amendments to the List of Fees (effective May 1, 2019) (circular [062-19](#))
- **Participant's Portal** (circulars [021-19](#), [056-19](#), [090-19](#) and [092-19](#))
- **Division's Regulatory User Group** (circulars [011-19](#), [026-19](#) and [040-19](#))
- **Others**
 - Off exchange transfer publication of guidelines (circular [012-19](#))
 - Compliance priorities and 2019 Regulatory Division's initiatives (circular [028-19](#))
 - Comparative analysis by the Division of market data in the context of extended trading hours (circular [055-19](#))
 - Publication of the Division's Newsletter No. 1 for 2019 (circular [032-19](#))

The Division's initiatives

Participant Portal

The Division launched the Participant Portal (the "Portal") in the first quarter of 2019. The Portal is a secure and user-friendly single point of contact for Approved Participants. It facilitates access to regulatory documents as well as the submission of applications, reports and notices to the Division.

The Division has made available the following functionalities:

- Administering access to the Portal;
- Approved person module which includes the application forms, transfer forms and universal termination notice (UTN) form;
- The MX-ID module for requesting new IDs, transfer requests and cancelling existing IDs;
- The module allowing the filing of notices of noncompliance (Gatekeeper) and for submitting corrections to the identification of orders (order marker corrections);
- The secure transfer of documents between the Division and Approved Participants.

As of June 30, 2019, the paper and online forms relating to the processes listed above are no longer available on the Division's website. The Division will only process requests sent through the Portal.

Training capsules have also been made available on the Division's website allowing users to familiarize themselves with the different modules of the Portal.

In the course of 2019, a series of improvements will be made to these initial functionalities.

Artificial intelligence and machine learning

On June 27, 2019, the Division held its first meeting with a sub-group of the Division's Regulatory User Group on questions relating to artificial intelligence and machine learning. The purpose of this initiative is to exchange ideas, insights and experiences with representatives of Approved Participants of the Bourse in the field of machine learning and artificial intelligence, mainly in compliance related activities. For example, during this meeting, a project on the analysis of the behavior of traders ("profiling") for the detection of abnormal behaviors was presented. The Division plans to hold a second meeting during the fall of 2019.

Requirements on client identifiers

The Division has been closely following the amendments to the rules of the Investment Industry Regulatory Organization of Canada ("IIROC") regarding client identification¹.

¹ https://www.iiroc.ca/Documents/2019/421878e6-39a3-4d64-9702-6a2b5394d435_en.pdf

The Division is taking this opportunity to initiate discussions with Approved Participants of the Bourse and other regulators to identify possible solutions regarding Client Identification requirements for products traded on the Bourse.

The goal of the Division is to assess the best approach considering the different factors in the products traded on the Bourse and the regulatory requirements of other regulators.

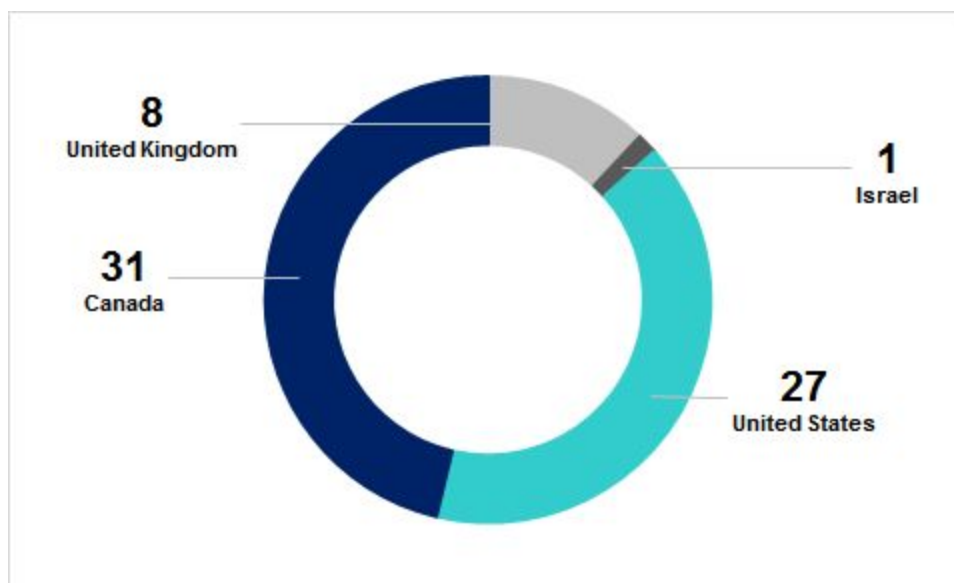
Profile of Approved Participants and Persons

Approved Participants

As at June 30, 2019, following admissions and resignations of Approved Participants, the Bourse had a total of 67 Approved Participants, distributed geographically as follows:

Figure 1

Approved Participants as at June 30, 2019



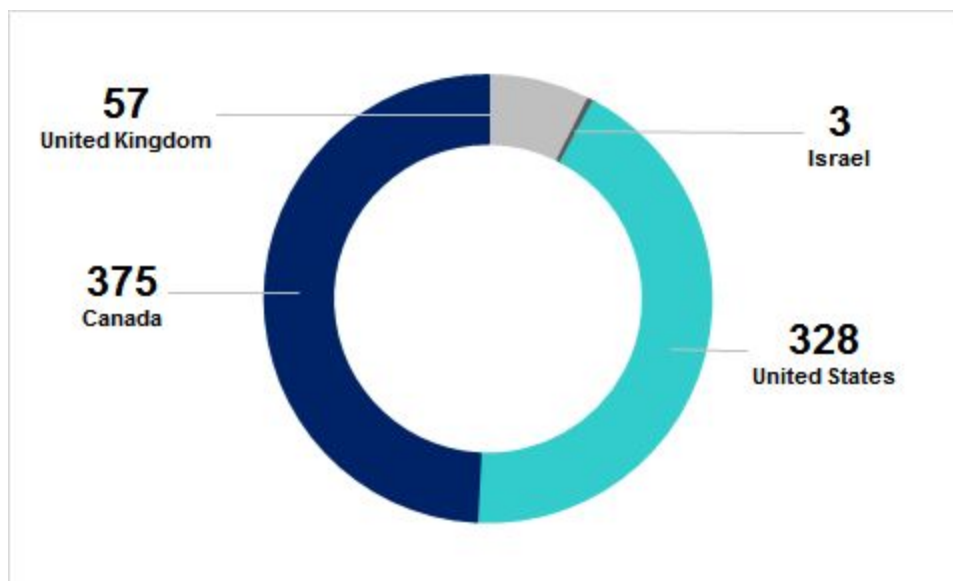
Approved persons

As at January 1, 2019, the Bourse had 750 approved persons. In the first and second quarters of 2019, the Division processed 67 new applications of approved persons as well as 54 termination notices². As at June 30, 2019 the Bourse had 763 approved persons, distributed geographically as follows:

² Uniform Termination Notice (UTN)

Figure 2

Approved persons as at June 30, 2019



Regulatory activities

Examinations

The Examinations unit manages examinations of the derivatives trading of the Approved Participants of the Bourse. The purpose of these examinations is to validate the compliance of Approved Participants of the Bourse with its Rules.

From January 1 to June 30, 2019 the Division conducted 14 examinations leading to observations. Recurring observations include:

- Incomplete policy and procedure manuals (see [article 3.100](#));
- Failure to obtain approval from the Bourse as an approved person before granting access to the Electronic Trading System to one or more employees (see [article 3.400](#));
- Inadequate recordkeeping for special terms transactions (see [article 6.208](#))

In addition, during this period, the Examinations unit issued management advice relating to [Regulation 23-103 respecting Electronic Trading and Direct Electronic Access to Marketplaces](#). Management advice is a recommendation formulated by the Examinations unit to an Approved Participant that reflects best practices concerning a regulatory issue.

During the period from January 1 to June 30, 2019, the Division conducted a total of 14 examinations leading to findings.

Market analysis and investigations

The Market Analysis unit performs market surveillance to detect potential breaches of regulations and monitors insider trading activities on the market of the Bourse. The Market Analysis unit also reviews trading on the Bourse to determine whether Approved Participants are complying with trading rules and principles, and whether these trades involve abusive or manipulative trading practices.

An increase of 9.41% was observed in the average daily trading volume compared to the same period in 2018, for an average daily volume of 468 917 contracts for the period of January to June 2019, compared to 428 600 contracts for the same period in 2018. In the first half of the year, from January 1 to June 30, 2019, the Division monitored over 9 423 925 trades executed on the Bourse.

The Market Analysis unit is also responsible for conducting preliminary reviews of all complaints received from various sources. The Division received 5 complaints from Approved Participants in the period from January 1 to June 30, 2019 and 1 from a client.

During the period from January 1 to June 30, 2019, the Division received 5 complaints from Approved Participants and 1 from a client.

The Investigations unit may open an investigation when a potential regulatory violation has been detected during an examination or following a market analysis.

From January 1 to June 30, 2019, the Division opened 13 investigations primarily involving access to the trading system of the Bourse by employees of Approved Participants when those employees were not approved persons, the supervision of the activities of clients with direct electronic access and manipulation of closing prices.

During the period from January 1 to June 30, 2019 the Division opened 13 investigations.

Disciplinary proceedings

Disciplinary proceedings may be initiated when, following an investigation, the Division concludes that there has been an offence under the Rules of the Bourse or to regulation (for example, [Regulation 23-103 respecting Electronic Trading and Direct Electronic Access to Marketplaces](#)).

Disciplinary decisions

During the period from January 1 to June 30, 2019, no disciplinary decisions were rendered.

Fines for minor violations

During the period from January 1 to June 30, 2019, the Division did not use the process of imposing fines for minor violations.

Imposition of late fees

The following table provides detailed information on all the fees imposed by the Division in the first and second quarters of 2019 for the late filing of documents.

Figure 4

January 1 to June 30, 2019	Occurrences	Participants	Total amount imposed
Termination notice submitted more than 10 days after the termination date	5	4 ³	\$3,350
Late reporting of corporate amendments	0	0	\$0
Reports pertaining to the accumulation of positions for derivative instruments (LOPR)	17	12 ⁴	\$7,500
Bi-monthly reports on options over-the-counter options (Rule Nine)	2	1 ⁵	\$3,500
Information or documents required by the Division	0	0	\$0
Exchange of Futures for Related Products (EFRP) transactions not reported within the prescribed time limit (article 6.208 (d) of the Rules of the Bourse)	3	3 ⁶	\$300

Observed best practices when responding to a Request for Information from the Division

As part of its regulatory activities, the Division may request information from Approved Participants as provided under article 4.1 (a) of the Rules of the Bourse.

Following these requests for information, the Division has observed the following best practices:

- An employee of the Approved Participant acknowledges receipt of a request from the Division;
- If the request is unclear, the Approved Participant contacts the Division to seek clarification on the information sought and the expectation of the Division;
- In responding to a request, the information is sent in generally accepted formats that the Division can use for analysis purposes (eg. CSV or PDF);
- The response includes a classification of information with reference to the request.

³ One Canadian participant and three foreign participants

⁴ Five Canadian participants and seven foreign participants

⁵ One Canadian participant

⁶ Two Canadian participants and one foreign participant

Upcoming events organized by the Division

The Division's Regulatory User Group meetings

- October 2, 2019, meeting in Toronto; and
- December 11, 2019, conference call meeting.

“Parlons dérivés / Derivatives Exchange” organized by the Division

- A conference in Toronto (presented in English) and one in Montreal (presented in French), planned for November 2019.

For more information:

REGULATORY DIVISION

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