



INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

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Mr. Jacques Tanguay
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Dear Mr. Tanguay:

Re: Montreal Exchange Option Position Reporting

I am writing on behalf of members of the Investment Industry Association of Canada (IIAC) to raise concerns regarding a change in your organization's interpretation, of some years' standing, of Montreal Exchange (ME) Rule 6, Section 6654, which relates to option position reporting. Member firms have always reported option positions based on account numbers. Recent ME audit reports have, however, reinterpreted the aforementioned rule, requiring member firms to aggregate and report option positions based on beneficial ownership. While our members understand the benefits of reporting in this manner and support your ongoing efforts to identify suspicious behaviour that might be contrary to the goal of efficient and fair functioning of the derivatives market, we would like to present an alternative that we believe will better and more affordably achieve this goal.

Problems with application of requirements as specified

The challenges involved in aggregating and reporting option positions in excess of 250 contracts on a beneficial ownership basis are significant and we believe that the benefits yielded by the data currently provided or to be provided if on a beneficial ownership basis are not as optimal as other available alternatives.

Costs high

- The system changes necessary to capture positions linked by beneficial ownership or common control would require the revision of service provider (e.g., ADP, ISM) and/or internal systems to include a unique "client identifier" field that would be used to aggregate accounts owned or controlled by a single individual. The system changes required are

fundamental to the operation of the systems mentioned, thus a project of this scope would be costly (even if the development costs were shared by subscriber firms), time-consuming and could negatively impact the development schedule for other important system projects necessitated by competing regulatory demands.

- Assuming that the aforementioned service provider and/or internal changes were made, each member firm would then have to *manually* review their client accounts (which, in some firms' cases, number in the millions) in order to identify accounts that are owned/controlled by a common party and, having done that, assign a unique client identifier to each of those accounts and link hundreds of thousands of accounts. This task would be extremely expensive, time-consuming and, owing to the sheer volume of accounts and the nature of the exercise, inaccurate almost immediately by its very nature.

Benefits questionable

Assuming that these system changes were made, we question the real value of generating a report showing holdings of as little as 250 contracts. Our concern is based on the fact that there is such a large gap between the 250 contract reporting threshold and the ownership limitations (which range from 13,500 to 75,000 contracts) that we risk generating a report which has so much data, much of it unimportant, that it becomes difficult to differentiate between the meaningful and meaningless data.

Recommended Alternative

While we understand that an accommodation is being made for small firms (i.e., that they are able to report all client positions to the ME on an account number basis), we accept that this is not a viable alternative to propose for larger firms. Instead, we recommend the following risk-based approach, which is consistent with the overall direction of regulatory oversight and audit processes, generally. More specifically, we recommend that the ME amend Rule 6, section 6654, to:

1. allow member firms to report holdings on an "account number" basis;
2. increase the position reporting limit from 250 contracts to 2,000 contracts; and
3. index the ownership reporting limit to increases in position ownership limits, thereby maintaining a relevant link between the two.

We believe that this proposal will result in member firms being able to quickly develop and implement simple, cost-effective processes that will use existing technology to efficiently and effectively identify potential manipulative behaviour... eliminating the need to invest in complex, costly and time-consuming IT projects (which would be necessary to report holdings on a beneficial basis). Furthermore, we believe that our proposal will result in member firms more effectively complying with their already existing "gatekeeper" obligations, as set out in ME Rule 6, subsection 6654(b), and in the ME being better able to manage its monitoring role.

We hope that we have satisfactorily described our risk-based, alternative approach and we look forward to discussing our proposal with you at your convenience. Please let us know if you have any questions.

Yours sincerely,

