

MONTREAL EXCHANGE

**Annual Report -
Regulatory Division**

2023



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MISSION

To ensure the integrity and credibility of the Canadian exchange-traded derivatives market.

VISION

The Division contributes to maintaining fair and equitable markets by favoring innovation, transparency and collaboration with various stakeholders.

About Us

The Bourse de Montréal Inc. (the “Bourse”) is recognized by the Autorité des marchés financiers (the “AMF”) as an exchange and a self-regulatory organization pursuant to Decision no 2012-PDG-0075 issued on May 2, 2012, as revised by Decision no 2023-PDG-0012 issued on April 4, 2023 (the “Recognition Order”). Under the terms of this decision, the Bourse is required to maintain an independent unit, the Regulatory Division (the “Division”), whose primary mission is to perform the regulatory functions and activities of the Bourse.

Mandate

Under the oversight of the Bourse Self-Regulatory Oversight Committee of the Board of Directors of the Bourse, the Division is mandated with exercising the self-regulatory functions of the Bourse.

Annual Report 2023

This report aims to allow the reader to have an overview of the Division’s activities and initiatives completed between January 1 and December 31, 2023. This report was filed with the AMF on March 28, 2024.

Strategic Guidelines

The activities and initiatives completed during 2023 reflect the 2021-2023 strategic plan, the strategic guidelines of which were as follows:

- To ensure market integrity
- To promote a culture of compliance
- To value data
- To ensure the sustainability of the Division
- To offer value-added regulation

Our Guiding Principles

“Commitment is the impulse that guides each of our steps towards excellence.”

Every day we wake up with the enthusiasm to embark on an adventure that resonates with each of us. We are fully invested in pursuing our goals by drawing our strength from collaboration.

“We view integrity as the cornerstone of who we are.”

We follow ethical and responsible principles by adopting an impartial, neutral and objective approach. Honesty and integrity are central to everything we do and we avoid circumstances that could create conflicts of interest.

“Ambition is the dream that fuels our aspirations and pushes us to conquer new heights.”

We have high expectations for our own results. Our goal is to improve every day, and we are keen to evaluate our own performance and experiment with new approaches. We challenge ourselves to go above and beyond.

Additional information about the Division is available on the Division’s website.



Letter from the Chair of the Self- Regulatory Oversight Committee

This past year marked a significant change in the governance structure of the Division. Sound governance is essential in the decision-making and approval process, and with a revised recognition order coming into effect in May 2023, the Bourse Self-Regulatory Oversight Committee (or “SROC”) was constituted and composed of three independent members of the Board of Directors of the Bourse. This process took careful consideration of a number of criteria, experiences and diversity of expertise, and with this process, it became my privilege to be chosen as Chair. The mandate of SROC is to oversee the activities of the Division, and together with the management team, we are focused on ensuring that the functions and operations of the Division are conducted appropriately and in accordance with the public interest mandate of the Bourse.

As the governing committee, we are therefore pleased to see that the strategic goals of the Division align with the whole organization’s mission to make markets better. We are also committed to supporting the sustainability of the Division’s activities by ensuring sufficient material and human resources, and maintaining the Division’s independence in carrying out its decision-making process and accomplishing its functions. These functions include not only the core regulatory activities (market analyses, examinations and investigations), but also informing and educating stakeholders, and providing market participants with the resources necessary to meet their compliance needs. Additionally, in 2023, the SROC was responsible for naming members to the Division’s Advisory Committee on Self-Regulation, made up entirely of industry members with an expertise in derivatives, and whose purpose it is to provide recommendations on amendments to Market Integrity Rules before the SROC reviews and approves any changes.

I look forward to working closely with the dedicated, hard-working Division team to fulfill the Bourse’s public interest mandate.

Monique Mercier

Chair of the SROC



Letter from the President of the Regulatory Division

The Division of the Bourse plays a fundamental role in ensuring the integrity of the Canadian exchange-traded derivatives market. A market whose trading volume and open interest have increased significantly over the last 10 years; options trading volume has doubled and futures trading volume has tripled. Our vision is to maintain fair and equitable markets by favoring innovation, transparency and collaboration with various stakeholders. Financial markets, business models and especially technology are always advancing and we must evolve in tandem to preserve investor confidence.

Since the key factors of the exchange-traded derivatives market allow investors to hedge risk through price discovery and transparency, the Division must identify, manage and mitigate the risks that could disrupt the proper functioning of the markets. As a team, we continue to strive for quality data to optimally perform our duties, update our rules and approaches, and support the public interest through continuous investment in our talented staff.

In 2023, market dynamics were dictated primarily by inflation and Bank of Canada policy, but our industry has had to also navigate and adapt to change with new realities such as evolving remote and hybrid work strategies, redefined jobs, operational resilience, cyber risk and artificial intelligence.

As I reflect on a year of adopting a new governance structure, optimizing our surveillance system, ensuring the financial stability of the Division, and the exciting adrenaline rush created by market activity, I am most grateful for the wonderfully committed team of the Division. I am proud of their accomplishments and I hope that in 2024 we are successful in deterring misleading and manipulative trade practices and strengthening our industry relationships. We view integrity as the cornerstone of who we are, as our commitment continues to guide each of our steps and our ambition pushes us to conquer new heights.

Karen McMeekin

President, Regulatory Division
Bourse de Montréal

Self-Regulatory Oversight Committee

The SROC, appointed and maintained by the Bourse's Board of Directors, is responsible for overseeing the Division's functions and activities.



Monique Mercier

Senior Advisor, Bennett Jones LLP and Corporate Director, joined May 2023

Ms. Mercier served as Executive Vice-President, Corporate Affairs, Chief Legal and Governance Officer at TELUS Corporation until her retirement in 2018. She has been a senior executive in the telecom, health, and information industry for most of her career, including two decades at TELUS and Emergis where she led a number of corporate functions, including human resources, government and media relations, regulatory and sustainability.

Ms. Mercier also serves on the boards of Alamos Gold Inc., iA Financial Corporation Inc. and Innergex Renewable Energy Inc.



Claude Tessier

President, Acacia Capital Inc. and Corporate Director, joined May 2023

Mr. Tessier was Chief Financial Officer at Alimentation Couche-Tard Inc., a position he held from 2016 until his retirement in 2023. He was previously President of the IGA Operations Business Unit at Sobeys Inc. and worked in senior leadership positions at Fly Furniture, Provigo and Costco, including in CFO and Vice President roles. Mr. Tessier has also held management positions at Mallette International and PricewaterhouseCoopers (formerly Coopers & Lybrand).

Mr. Tessier also serves on the boards of CCL Industries Inc. and WSP Global Group Inc.



Martine Irman

Corporate Director, joined May 2023

Ms. Irman served as the Senior Vice President, TD Bank Group and the Vice Chair, Head of Global Enterprise Banking, TD Securities until her retirement in 2019. Ms. Irman is a senior financial executive with over 25 years of treasury and securities experience.

Ms. Irman also serves on the boards of First National Financial LP, Ontario Teachers' Pension Plan, Plan International Canada and St. Michael's Hospital Foundation. She was the immediate past chair of the Export Development Canada.

Regulatory Activities

Highlights

2

Settlement offers accepted by the Disciplinary Committee of the Bourse

14.5%

Improved market surveillance efficiency with an increase of 14.5% in the average daily volume traded during the year, i.e. an average daily volume traded of 689 000 contracts, compared to 601 811 contracts for the same period in 2022

\$100,000

Contribution of \$100,000 to the Centre d'intelligence en surveillance des marchés financiers ESG UQAM¹

\$50,000

Contribution of \$50,000 to the Salle des marchés ESG UQAM¹

Amendments to the Rules of Bourse de Montreal Inc. to Modify the Governance of the Regulatory Division

Self-certification of amendments to the Rules of Bourse de Montréal Inc. regarding Client and Order Identifiers

Appointment of the members of the Advisory Committee on Self-Regulation and first official meeting held

Strategic planning exercise for 2024-2026

AS AT DECEMBER 31



2

Regulatory User Groups meetings held

Hosted the Compliance Forum

Held annual training session on the Bourse's public interest mandate for Division employees and members of the SROC

Began evaluation work on Division risk management with an external firm

Collaborated on the Autorité des marchés financiers' inspection

¹ Paid by the fine fund.

Our Activities

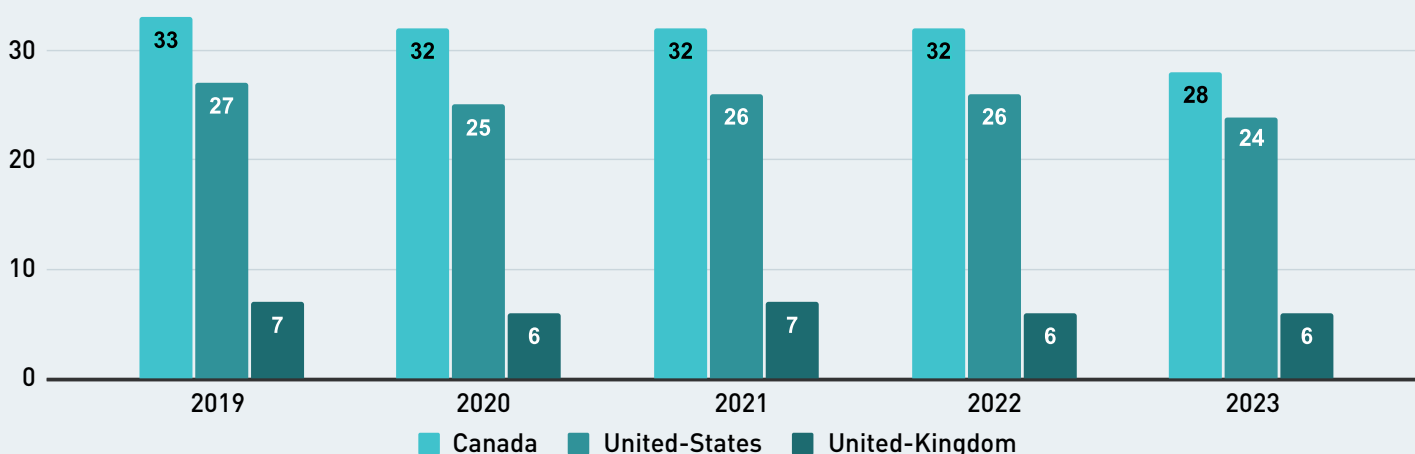
1. Approved Participants

As of January 1st, 2023, 64 Approved Participants, i.e., 32 Canadian Approved Participants (50%) and 32 foreign Approved Participants (50%) had access to the Bourse. During 2023, six resignations were approved by the SROC. Consequently, as of December 31, 2023, 58 Approved Participants, i.e., 28 Canadian Approved Participants (48%) and 30 foreign Approved Participants (52%) had direct access to the Bourse.

FIGURE 1
Admissions and Resignations of Participants in 2023

	PARTICIPANT	ADMISSION DATE	RESIGNATION DATE	STATUT (AP/FAP)	JURISDICTION
Q2	RF Securities Clearing LP	-	April 18, 2023	AP	Canada
Q3	Jitneytrade Inc.	-	July 13, 2023	AP	Canada
Q3	Freshwater Securities LLC	-	July 28, 2023	FAP	United States
Q3	PGM Global Inc.	-	July 28, 2023	AP	Canada
Q3	Marex North America, LLC	-	September 13, 2023	FAP	United States
Q4	Macquarie Capital Markets Canada Ltd.	-	October 23, 2023	AP	Canada

FIGURE 2
Geographical distribution of Approved Participants of the Bourse since 2019



2. Approved Persons

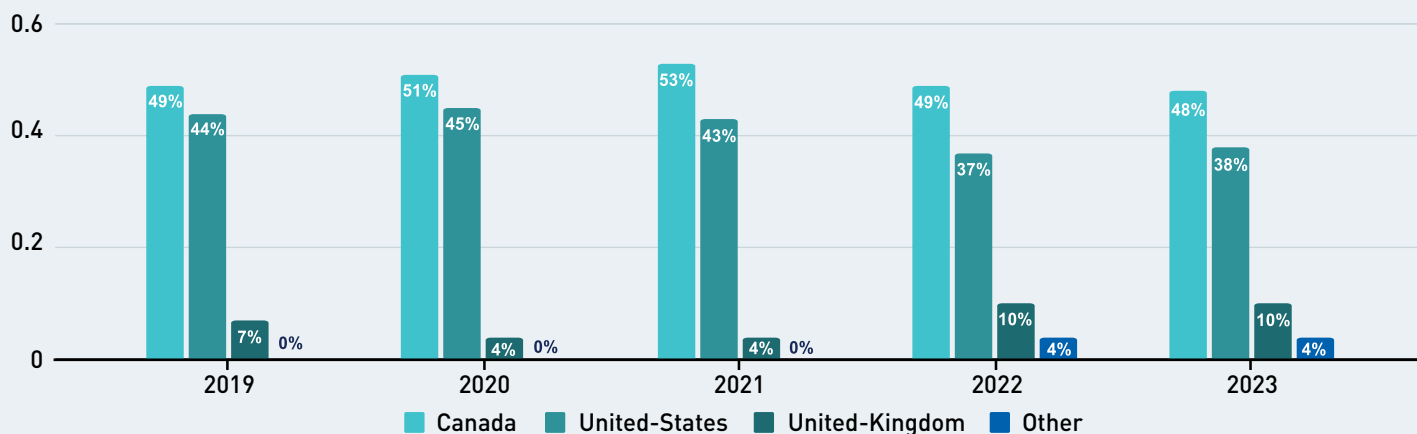
On January 1st, 2023, 815 employees of an Approved Participant, or an affiliated corporation or subsidiary of an Approved Participant, were approved by the Bourse. During 2023, the Division processed 158 new applications and 132 notices of termination of employment. As of December 31st 2023, 841 persons were approved by the Bourse.

FIGURE 3
Approval of Approved Persons in 2023

NUMBER OF APPROBATION APPLICATIONS IN 2023	DEADLINE TARGETED RESPECTED	DEADLINE TARGETED NOT RESPECTED
158	100%	0%

FIGURE 4

Geographic breakdown of Approved Persons since 2019



3. Examinations

Examinations and reports

16

Examinations of Canadian Approved Participants

10

Examinations of foreign Approved Participants

3

Letters of no finding

19

Final reports

Findings

60

Findings

16

High-priority findings

The high priority findings are related to reports of accumulated positions (LOPR), authorized access as an Approved Person, supervision, surveillance and compliance, sponsored access, and Exchange of Futures for Related Products (EFRP) transactions.

4. Market Analysis

39,591 Total daily alerts²

55 Analyses opened (by source)

25	Insider trading reports	6	Other sources
10	Division surveillance system	5	Referrals from CIRO
6	Complaints	3	Notices of non-compliance

64 Analyses completed

5	Conclusive analyses	6	Transferred to appropriate regulator
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Exemptions

7	Position limits
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5. Investigations

13 Investigations opened

8 Investigations closed

6	Conclusive investigations	2	Inconclusive investigations
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14 Open investigations

² For the year 2023.

6. Enforcement

A disciplinary committee accepted two settlement agreements with respect to the following disciplinary complaints:

JitneyTrade Inc. acknowledged contravening the Rules of the Bourse by failing to establish and maintain controls, policies and procedures that are reasonably designed to manage the regulatory risks associated with granting its clients with electronic access to the trading system of the Bourse, more specifically: (i) that its post-trade monitoring reports and review documentation did not provide adequate written explanation of the reviews actually performed in connection with the detection of potential spoofing; and (ii) with regard to its daily post-trade monitoring to detect certain types of potential “marking the open,” a manipulative or deceptive trading practice.

Following a hearing held on June 14, 2023, a disciplinary committee accepted the settlement agreement negotiated between the staff of the Division and the Approved Participant, which provided for the imposition of a fine totalling \$90,000 as well as the payment of an additional \$13,000 for related costs. [Circular 094-23](#)

Wedbush Securities Inc. acknowledged contravening the Rules of the Bourse by:

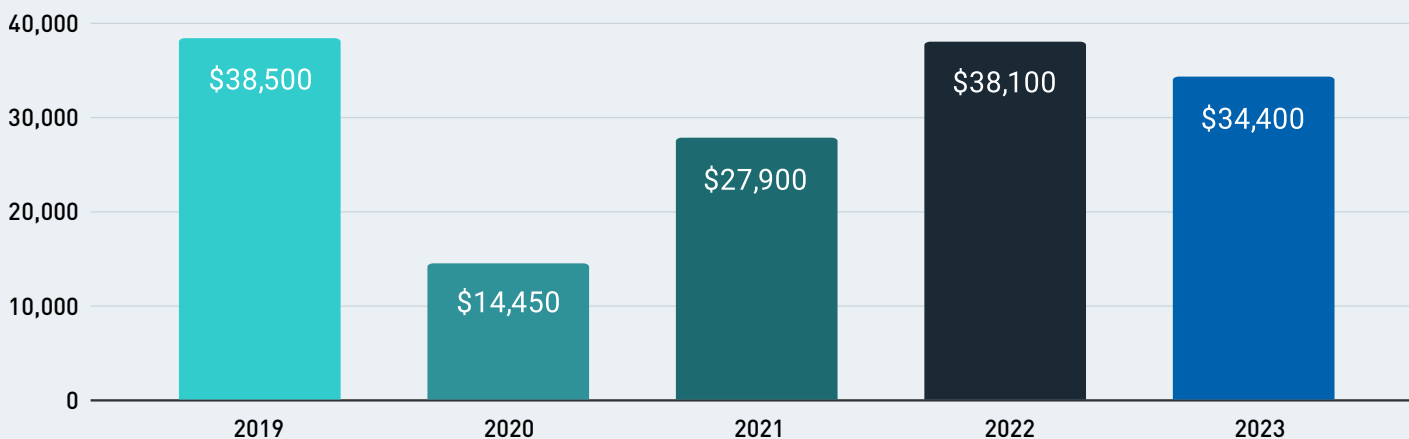
- failing to establish and maintain controls, policies and procedures that are reasonably designed to manage the regulatory risks associated with providing its clients with electronic access to the trading system of the Bourse, in particular as the Approved Participant had no post-trade monitoring or any controls, policies and procedures in place to specifically monitor all orders from such clients to detect potential manipulative or deceptive methods of trading;
- failing to provide adequate evidence of certain follow-ups, documentation of certain results or explanations of how certain alerts were resolved as part of its management of the alerts generated by its post-trade monitoring for potential manipulative or deceptive methods of trading from its clients with electronic access to the trading system of the Bourse;
- failing to assess, confirm and document that its clients which were authorized to transmit electronically orders to the Bourse through the systems of the Approved Participant continued to meet the standards established by the Approved Participant;
- failing to file, in the prescribed manner, reports detailing all gross positions held for a group of accounts which were all owned by one of the corporate clients of the Approved Participant when these gross positions exceeded the reporting thresholds prescribed by the Bourse;
- failing to provide the Legal Entity Identifier for a group of accounts which were all owned by one of the corporate clients of the Approved Participant that had a Legal Entity Identifier;
- failing to aggregate positions held by one of its corporate clients;
- failing to ensure that all information transmitted to the Bourse by the third party to whom it had delegated the transmission of the position report was complete and accurate;
- failing to establish and maintain a system to supervise the activities of each employee that is reasonably designed to achieve compliance with the requirements of the rules of the Bourse.

Following a hearing held on August 16, 2023, a disciplinary committee accepted the settlement agreement negotiated between the staff of the Division and the Approved Participant, which provided for the imposition of a fine totalling \$290,000, as well as the payment of an additional \$10,000 for the related costs. [Circular 112-23](#)

7. Late filing fees imposed

The following table contains detail of the late filing fees in the production of documents. During 2023, those fees totaled \$34 400. Note that all sums imposed as late fees are paid into the Division's fine fund.

FIGURE 6



8. Regulatory amendments

Publication of proposed regulatory amendments

During 2023, three regulatory amendment files were initiated by the Division that were published for comments, and one regulatory amendment file was self-certified.

The analysis of each regulatory amendment file contains a description on the impact on the public interest³.

SUBJECT	DESCRIPTION	DATE APPROVED	DATE COMMENTS REQUESTED	DATE OF SELF-CERTIFICATION	DATE OF ENTRY INTO FORCE
Amendments to the Rules of the Bourse regarding client and order identifiers.	The Bourse proposes to introduce a unique client identifier as well as identifying orders for sponsored access and orders that are generated algorithmically to better align the Division's requirements with those of other regulators, more effectively manage the risks of electronic trading, enhance market integrity and investor protection, and ensure consistency of information across Canadian marketplaces. There were no recommendations formulated by the ACS ⁴ Circular 044-23 (Request for Comments) Circular 144-23 (Self-certification)	RPC ⁵ March 13, 2023 SC ⁶ March 7, 2023	March 27, 2023	December 7, 2023	June 28, 2024

³ The requirement to describe the impact on the public interest became effective as of May 2, 2023. Regulatory amendment files published prior to May 2, 2023 may not contain this description.

⁴ The functions of the Advisory Committee on Self-Regulation began on May 2, 2023. Before May 2, 2023, the ACS did not formulate any recommendations on regulatory amendments files.

⁵ Rules and Policies Committee.

⁶ Approved by the Special Committee which has since been replaced by the Self-Regulatory Oversight Committee on May 2, 2023.

Amendments to the Rules of the Bourse regarding position limits on cash settled interest rate listed products	<p>The Bourse proposes to amend paragraph (a) of Article 6.309B (Position Limits for Futures Contracts) of the Rules to remove position limits on Cash Settled Interest Rate Listed Products.</p> <p>Recommendations formulated by the ACS and considered by the Division:</p> <ul style="list-style-type: none"> • The Division should always assess the characteristics of any new underlying and the proposed product specifications, and if a potential risk of price manipulation is identified, the Division should impose position limits on these contracts even if they share the characteristic of being cash-settled. • The Division emphasized to the SROC that Approved Participants will continue to have the obligation to submit large open positions reports (LOPR) to the Division. Therefore even if position limits are being removed on Cash-Settled Interest Rate Listed Products, this has no bearing on the reporting obligation, and consequently, the Division will continue to monitor large positions on these Listed Products. 	December 1, 2023	December 14, 2023	TBA	TBA
Amendments to the Rules of the Bourse regarding Position Limits on Government of Canada Bond Listed Products	<p>The Bourse proposes to amend subparagraph (b)(ii) of Article 6.309B (Position Limits for Futures Contracts) of the Rules to modify the Spot Month Position Limit on Government of Canada Bond Listed Products.</p> <p>Recommendations formulated by the ACS and considered by the Division:</p> <ul style="list-style-type: none"> • The Division will insert a fallback provision in the Circular when publishing the Spot Month Position Limits, indicating that the Division reserves the right to publish an updated position limit before the effective date, if it deems necessary. • The Division explained to the ACS that the methodology to establish position limits on all expiration months for Listed Products and illustrated the variation between the current and proposed methodology for the Spot Month Position Limits. 	December 1, 2023	December 14, 2023	TBA	TBA

[Circular 147-23](#) (Request for Comments)

[Circular 148-23](#) (Request for Comments)

Risk Management

The Division must comply with the Recognition Order and the Rules of the Bourse, which define the governance structure of the Division. For the Division to conduct its activities independently as a business unit separate from the Bourse, the latter being a for-profit business entity, standards regarding structure and governance have been established and are reflected in the processes and activities of the Division's services.

Besides respecting the policies and procedures of TMX Group, the Division adopted its own risk assessment procedure, in December 2023, that describes how the Division assesses the risks of its processes and activities to identify and manage these risks arising from the exercise of its functions and management of affairs. The main objectives of the procedure are as follows:

- reduce vulnerabilities to which the Division might be exposed;
- allow the Division to strategically manage and allocate its resources;
- ensure compliance with the governance standards established in the Recognition Order and Rules of the Bourse.

The Division also developed a control framework that includes the standards identified to comply with the applicable legislation and regulation, control activities and internal control components, and outlines the compliance obligations and procedures established by the Recognition Order.

The Division split its risks into two broad categories, compliance risks and operational risks. The first encompasses the elements of compliance associated with the Recognition Order, and the second relates to Memoranda of Understanding and information security best practices.

Compliance Risk

The Division retained the services of an external firm to obtain an independent opinion following implementation of the governance structure set out in AMF Recognition Order no. 2023-PDG-0012, in force May 2, 2023, and the associated Rules of the Bourse as well as to develop the appropriate processes and controls to comply with and satisfy the conditions specified therein.

All deadlines indicated in the Recognition Order regarding the communication of information were met.

Operational Risk

Process

The Division met the deadlines for filing all reports indicated in the exchange of information Memoranda of Understanding with the various regulators.

Technology

The Division conducted a vulnerability assessment of the Participant Portal through intrusion tests. The purpose of these tests was to simulate an attack by identifying and exploiting vulnerabilities and providing a clear picture of the view a person wanting to attack its infrastructure might have or the effectiveness of its security controls in preventing a potential attack. The test demonstrated that it would be difficult for an unauthorized party to access the web platform, which indicates the robustness of the security measures already in place. Furthermore, no major data validation or code injection vulnerabilities were found in the application tested, which attests to the effectiveness of the security strategies implemented.

For more information

Please contact the Regulatory Division if you have any questions or require further clarification.

General Information

Regulatory Division
Bourse de Montréal Inc.
1800-1190 des Canadiens-de-Montréal Avenue – P.O. Box 37
Montréal, Quebec
H3B 0G7
info.mxr@tmx.com



Appendix

Financial Statements

Schedule of operating income of

REGULATORY DIVISION OF BOURSE DE MONTREAL INC.

Year ended December 31, 2023



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INDEPENDENT AUDITOR'S REPORT

To the Bourse de Montréal Self-Regulatory Oversight Committee

Opinion

We have audited the Schedule of Operating Income of the Regulatory Division of Bourse de Montréal Inc. (the Entity) for the year ended December 31, 2023 and notes to the Schedule, including a summary of material accounting policies (Hereinafter referred to as the "Schedule").

In our opinion, the accompanying Schedule for the year ended December 31, 2023 of the Entity is prepared, in all material respects, in accordance with the financial reporting framework described in Note 2 to the Schedule.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Schedule***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the Schedule in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Financial Reporting Framework

We draw attention to Note 2 in the Schedule, which describes the applicable financial reporting framework and the purpose of the Schedule.

As a result, the Schedule may not be suitable for another purpose.

Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Schedule

Management is responsible for the preparation of the Schedule in accordance with the financial reporting framework described in Note 2 to the Schedule; this includes determining that the applicable financial reporting framework is an acceptable basis for the preparation of the Schedule in the circumstances, and for such internal control as management determines is necessary to enable the preparation of a Schedule that is free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Schedule

Our objectives are to obtain reasonable assurance about whether the Schedule as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Schedule.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the Schedule, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The image shows the handwritten signature of KPMG LLP in black ink. The letters are bold and slanted, with a horizontal line underneath the signature.

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada

March 25, 2024

REGULATORY DIVISION OF BOURSE DE MONTREAL INC.

Schedule of operating income

Year ended December 31, 2023

	2023
Revenue:	
Variable assessment	11,096,101
Other revenues	1,161,570
Total revenue	12,257,671
Expenses:	
Compensation and Benefits	
Salaries & Other Compensation	3,344,835
Government Benefits	355,436
Corporate Benefits	551,586
Performance Incentives	564,852
Other Employee Costs	224,351
	5,041,060
Information and Trading Systems	
IT Professional Services	762,657
Info, Feeds & Content	181,878
IT Material	49,064
Telecomm	12,991
IT Other	1,055,475
	2,062,065
Selling, general and administration	
External fees	224,313
Marketing & Sponsorships	60,531
Occupancy	304,246
Travel & Entertainment	31,510
Other G&A	6,655
MX chargeback	2,336,355
	2,963,610
Depreciation and Amortization	
Depreciation - Technology and computer equipment	40,708
Amortization of the surveillance system	66,785
	107,493
Total operating expenses	10,174,228
Interest income	33,500
Operating surplus of revenues over expenses & interest income	2,116,943

REGULATORY DIVISION OF BOURSE DE MONTREAL INC.

Notes to the Schedule of operating income

Year ended December 31, 2023

1. General information

Bourse de Montréal, Inc. (the “Bourse”, the “Montréal Exchange”, or “MX”) is a self-regulated electronic derivatives exchange domiciled in Canada. The Regulatory Division of Bourse de Montréal, Inc. (“the Regulatory Division” or “MX-R”), a business unit within MX, has the mission of maintaining the transparency, credibility and integrity of Canadian exchange-traded derivatives market, under the Autorité des marchés financiers (“AMF”) oversight.

In accordance with Article 2.100 of Chapter B of the Rules of the Montréal Exchange: *“The Regulatory Division is created by the Board of Directors with the aim of ensuring that the regulatory functions of the Bourse are carried out efficiently and fairly. To this end, the supervision of the regulatory functions and operations of the Bourse are entrusted to the Regulatory Division, which shall operate as a distinct business unit separate from the other activities of the Bourse. The Regulatory Division shall be not-for-profit and financially self-sufficient.”*

2. Basis of preparation

The Schedule of Operating Income is a special purpose report that includes the profit or loss of the operations of the Regulatory Division for the year ended December 31, 2023 (the “Schedule”). The purpose of the Schedule is for the Regulatory Division to meet its obligation to the AMF under the Recognition Order 2023-PDG-0012.

The Schedule is prepared using the recognition and measurement principles of IFRS Accounting Standards (IFRS). For further clarity, the Schedule is not part of a complete set of financial statements under IFRS as it excludes a statement of financial position as at the end of the period, a statement of changes in equity for the period, a statement of cash flows for the period, and comparative information in respect of the preceding period. The Schedule excludes activities of the fines fund.

The Regulatory Division has applied judgment in presenting its material accounting policies together with related information in the notes to the Schedule.

The Schedule is presented in Canadian dollars, which is the Regulatory Division’s functional currency.

The Schedule was approved by the Regulatory Division’s Self-Regulatory Oversight Committee on March 22, 2024.

The Schedule is prepared on a historical cost basis.

3. Summary of material accounting policies

a) Revenue recognition

Revenue is recognized when performance obligations have been satisfied. The identification of performance obligations and the determination of the timing of when performance obligations are satisfied, either at a point in time or over time, require judgment.

REGULATORY DIVISION OF BOURSE DE MONTREAL INC.

Notes to the Schedule of operating income

Year ended December 31, 2023

Substantially all of the Regulatory Division's revenues are considered to be revenues from contracts with MX's customers.

The Regulatory Division earns revenue from assessments and other related revenues, comprising application fees, fixed annual assessment of approved participants, foreign approved participants, and approved persons, as well as variable assessment, per contract per side, with fee caps for pre-arranged transactions.

Variable assessments contain one performance obligation related to the trade execution, which mostly occurs instantaneously. Revenue for application fees and fixed annual assessment are recognized on a straight-line basis over the remainder of the year. Revenue for variable assessments is recognized in the month in which the trades are executed.

Other revenues such as course fee and corporate amendments are recognized when the related services are provided.

b) Expense recognition

The Regulatory Division's expenses include compensation and benefits, information and trading systems, selling, general and administration, and depreciation and amortization costs incurred during the period.

4. Related Party Transactions

Certain general and administrative services, along with accounting, finance, human resources, and information technology are performed by MX. This results in the allocation of certain expenses, including the following, as separately presented in the Schedule:

- Long Term Incentive Plan: Long term incentive plan expenses, allocated at budget, to eligible employees of the Regulatory Division.
- Corporate Benefits: Pension, employee health benefit and share purchase plan expenses, allocated based on a budgeted percentage against salaries.
- Occupancy: Premises cost of the Regulatory Division's use of MX's offices in Montréal, allocated on a budgeted percentage of square footage occupied.
- MX chargeback: Fixed fees for the Regulatory Division's use of MX's SOLA trading platform ("SOLA license"), and fixed and variable fees for IT infrastructure and efforts. This also includes administrative fees representing 15% of the Regulatory Division's costs (with the exception of the SOLA license fee and expenses related to First Derivatives PLC).