



June 29, 2000

Mr. Purdy Crawford, Q.C.  
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Dear Mr. Crawford,

On behalf of the Montreal Exchange, I wish to thank you for extending to our Exchange the opportunity to comment on matters discussed in the Issues List published by the Securities Review Advisory Committee ("the Committee").

Our comments will touch only on a few selected issues relating to the specific mission of the Montreal Exchange, particularly in light of the re-alignment of the Canadian Exchanges which occurred last year. For the purpose of easy reference, I will be using the number assigned to each of the issues in the Issues List published in (2000) 23 OSCB 3036 SS.

**Paragraph 10: Integration of the Securities Act and the Commodity Futures Act**

As markets around the world are becoming global and more integrated, the Montreal Exchange recommends that the two legislations be integrated. Policy making and regulatory process cannot be separated and a comprehensive approach to the cash and derivatives markets must be found within both legislation and regulation. The Ontario Securities Commission ("the Commission") consequently should be given explicit and exclusive jurisdiction over derivatives, in Ontario.

**Paragraph 14: Recognition of the role played by recognized SROs**

As a general comment, in-keeping with the re-alignment of the markets and its implication on market specialization, legislation should allow specialized organizations (for example derivatives related) to be recognized as SRO's.

**Paragraph 15: SRO's and other market Players**

Subject to the comments on Regulatory Harmonization (Paragraphs 32 and 33), the Act should mandate that, as for any stock exchanges (or derivatives exchanges), central depositories, clearing agencies and quotation and trade reporting systems should be regulated through a recognition process. Of course, requirements would differ depending on the type of business carried on by each organization. Reliance on the regulatory work of other commissions and agencies should be integrated in the regulatory policy.

The rationale for extending the scope of the Act to these new categories of players is that the confidence in the marketplace by small and large investors should be enhanced by the fact that undesirable practices cannot creep in the system through a regulatory loophole in the chain of market activities.

**Paragraph 32 and 33: Regulatory Harmonization and Globalization Trends**

In the Canadian context, the Commission and the other members of the CSA should be congratulated for the efforts and the progress made in the last decade in terms of inter-provincial co-operation and harmonization in the administration of securities regulation across Canada.

The mutual reliance system has proven to be effective in the regulation of registrants and securities. But as exchanges are SRO's entrusted with some form of delegation of authority over its direct participants (not to say members) or over those who have direct access to their trading systems, the reliance model seems more difficult to apply. Even in Europe, the ISD has not gone so far as to apply to the exchanges the so-called "Home-Host" jurisdiction concept. In fact, this is why the alliances of exchanges in Europe have to be done through a much-complicated legal structure. In Canada, a lot

of progress has been achieved through the co-operation of the CSA members in the context of the realignment of the Canadian exchanges. However, legislative changes should be made to facilitate and prompt co-operation amongst regulators, the reduction of regulatory burden for the exchanges and the integration of our Canadian markets, whether they are cash or derivatives. In the international context, progress has not been so effective in the integration or harmonization of the regulatory process, except as described in the Commentary regarding the European Community. Because the markets are integrating rapidly on the global scene, the review of the Act should be a good opportunity to send the signal worldwide that the Commission is mandated and empowered to take the lead in harmonization and co-operation with other regulators across the world. In that sense:

1. The mutual reliance review system should be fostered both within and outside Canada;
2. The area of exchange recognition should be included in the "seamless" form of regulation between provincial regulators and possibly foreign regulators;
3. The Act should grant the Commission the power to delegate functions to the other regulators within and outside Canada.

However, these suggestions are made provided:

1. A level playing field be maintained across the jurisdictions involved in such arrangements;
2. Reciprocity between regulatory regimes be granted as a condition precedent for any form of reliance or delegation;
3. The outcome of the process does not increase the regulatory burden for the exchanges.

**Conclusion**

The Montreal Exchange would be pleased to meet with the committee, at its convenience, to expand on the above comments.

Yours Truly,

Enclosures (2)

cc: Barbara Stymiest  
Carmen Crépin