

**BCSC Oversight Review of
TSX Venture Exchange Inc.**

October 29, 2010

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Executive Summary

1. Introduction

The TSX-Venture Exchange Inc. (TSX-V) lists and trades junior venture issuers. Its head office is in Calgary, with offices in Vancouver, Toronto and Montréal. It is a subsidiary of the TMX Group (TMX), which also owns the Toronto Stock Exchange (TSX).

The TSX-V is co-regulated by the Alberta Securities Commission (ASC) and the British Columbia Securities Commission (BCSC) (the Commissions). Each Commission has Lead Regulator oversight responsibilities for specific TSX-V operational and regulatory functions.

The BCSC and the ASC recently completed their oversight reviews. The reviews test whether the TSX-V is meeting the regulatory requirements in:

- the Commissions' recognition orders (ROs) (which grant the TSX-V authority to operate as an exchange)
- the *Securities Act*
- *National Instrument 21-101 Marketplace Operation*

The ASC's review is available at www.albertasecurities.com.

This BCSC review covers:

- on-going issuer regulation
- trading platform systems and capacity planning
- development of trading rules
- Member and Participating Organization (PO)¹ access and regulation

This review does not cover settlement and clearing. BCSC staff's 2006 oversight review and the Ontario Securities Commission's (OSC's) 2008 review of the TSX (the related senior exchange with which the TSX-V shares this system) found no material deficiencies.

This review is one component of the oversight program for exchanges. The complete oversight program is set out in the Memorandum of Understanding respecting the Oversight of Exchanges and Quotation and Trade Reporting Systems (MOU).

¹ The TSX-V rules provide for two categories of entities with trading access to TSX-V systems, POs and Members. Historically, all persons with access were termed Members. Since 2001, the TSX-V has been transitioning all dealers with access to POs status. The TSX-V has advised that they intend that future applicants for access as POs will be subject to consistent rights and obligations.

2. Overall assessment

Staff completed its oversight review in July 2010.

In general, staff are satisfied that the TSX-V's resources and operations **substantially** meet the requirements of its RO, the *Securities Act* and *National Instrument (NI) 21-101 - Marketplace Operations*.

Nonetheless, staff identified potential operational risks, which could result in negative outcomes if not remedied. Staff recommend procedural enhancements to mitigate the residual risks identified. The areas for improvement and staff's recommendations are discussed in their respective sections.

To test the TSX-V's compliance, staff reviewed documents and data, and interviewed key personnel relevant to the review areas.

3. Summary of key findings

Review areas	Assessment	Findings
Ongoing issuer regulation	Effective	<ul style="list-style-type: none"> • Staff found that the TSX-V Compliance & Disclosure (C&D) department reporting structure is satisfactory. Its reporting to the Commissions complies with the terms of the RO and the requirements of <i>NI 21-101</i>. • The TSX-V is discussing appropriate benchmarks, to measure overall regulatory effectiveness, with the BCSC. Although these benchmarks are yet to be established, staff are satisfied that the TSX-V senior management is taking steps to set such benchmarks.
Trading platform systems and capacity planning	Effective	<ul style="list-style-type: none"> • The TSX-V uses established and measurable performance criteria for capacity planning. • The TSX-V also periodically estimates future capacity and performance requirements. • The TSX-V has a satisfactory and complete change management and testing regime.
Trading rule development	Effective	<ul style="list-style-type: none"> • The rule development process is comprehensive and reasonable.
Participating Organization (PO) access and regulation	Partially effective	<ul style="list-style-type: none"> • The TSX-V appears effective in setting standards for its Members and POs. For example, it requires its Members and POs to assign unique trading identifiers to Direct Market Access (DMA) clients. The TSX-V provides these unique markers to the Investment Industry Regulatory Organization of Canada (IIROC) for use in its real-time DMA activity surveillance. However, the TSX-V could improve its effectiveness by following up on IIROC's reporting that some Members and POs are violating the TSX-V's DMA rules.

Review areas	Assessment	Findings
		<ul style="list-style-type: none"> • While the TSX-V does have specific agreements with IIROC setting out each party's obligations in monitoring compliance with TSX-V rules, the TSX-V has no documented procedures for carrying out its responsibilities under this model.

4. Review objectives and scope

Objectives

The review objectives were to assess the TSX-V's compliance with the terms and conditions (Ts&Cs) of its RO, the *Securities Act* and *National Instrument (NI) 21-101 - Marketplace Operations*. Staff focused the review specifically to ensure that the TSX-V:

- has measurable performance criteria for systems capacity planning
- monitors its listed issuer conduct and activities for compliance with its rules
- makes decisions under its rules about its listed issuers, persons associated with its listed issuers and applicants for listing and provides a review or appeal process for these decisions
- periodically estimates future capacity and performance requirements based on current and anticipated requirements from users
- meets appropriate standards for market operations and regulating trading activity for compliance with its rules
- has adequate processes and resources to develop appropriate trading policies and rules on a timely basis
- complies with the rule review process
- files its amendments to rules, policies, forms and other similar instruments with the BCSC for approval

The period covered by this review (review period) was October 1, 2005 to December 31, 2009.

5. Prioritization of report recommendations

The recommendations in this report are prioritized into high, medium, and low priority, based on the following criteria:

High – the issue is significant and important or relates to a repeat significant finding. The TSX-V should take corrective action immediately and regularly report on its progress on implementing the recommendation.

Medium – the TSX-V should resolve the issue within a reasonable timeframe. The TSX-V may be required to report on its progress on implementing the recommendation.

Low –Staff have discussed these issues with management for their review and consideration.

A. ONGOING ISSUER REGULATION	
Overall effectiveness	Effective
1. Department structure	
<p>The TSX-V's C&D department is responsible for ongoing issuer regulation. C&D staff fulfill this responsibility by:</p> <ul style="list-style-type: none"> • monitoring listed issuer conduct and activity for compliance with the TSX-V rules and policies • investigating potential violations by listed issuers or related individuals • ensuring appropriate outcomes when C&D staff conclude that the TSX-V's requirements have been violated • providing a hearing process for review or appeal of C&D staff decisions 	
<p>Findings Staff found the C&D department's reporting structure satisfactory.</p>	
Risk implication	None
Recommendation	None

A. ONGOING ISSUER REGULATION	
2. Procedures for monitoring and detecting non-compliance	
<p>The C&D department's Procedure Manual includes checklists that C&D staff use for managing and closing files. These checklists help C&D staff to follow applicable the TSX-V policies and internal procedures.</p> <p>C&D staff also reference the TSX-V policies (on its website) governing Members' and POs' business conduct.</p> <p>Staff sampled 48 C&D files to review the TSX-V's ongoing issuer regulation processes.</p>	
<p>Findings The C&D department appears to have documented most of its policies and procedures for monitoring market participant conduct.</p>	

A. ONGOING ISSUER REGULATION	
<p>However, in some instances, staff found no evidence of quality assurance checks within the TSX-V's Tier Maintenance Requirements (TMR) review process. The TMR are the minimum standards for financial situation, business activity and shareholder distribution that issuers must meet to maintain their listing.</p> <p>Generally, BCSC staff noted the C&D department checklists are good. However, staff noted that some checklists are either outdated or inaccurate.</p>	
Risk implication	There is a risk that when the review process is not applied consistently, non-compliance will go undetected.
Recommendation	<ul style="list-style-type: none"> • C&D department staff should document the criteria they use to determine when the TSX-V staff are permitted to exercise discretion, in conducting the TMR review process, without the need for a secondary review. • C&D staff should implement procedures to ensure that review checklists are updated when the TSX-V's rules and policies change.
Priority	Medium
TSX-V response	<p>Action Plan: <i>(1) C&D employs an approach similar to that recommended by the BCSC, except that we advise staff where their discretion is limited, rather than where it is permitted. We believe this approach is more empowering, while achieving the results sought by the BCSC. Accordingly, we feel it's best to continue to use this approach. However, staff's comments did result in us reassessing our downgrade processes and we now require our analysts to obtain a second review from their Team Manager prior to the NEX downgrade taking place. In addition, if, during the downgrade review process, an issuer expresses resistance to a pending downgrade to the analyst, the analyst is required to elevate the file to the Team Manager for a second review. (2) C&D updates its checklists when TSX-V policies change. The outdated checklists in question related to files reviewed during the audit which pre-dated the policy changes that occurred in June 2010. All checklists have been updated to reflect these most recent policy changes.</i></p>
BCSC staff Comments and follow-up	TSX-V's response is adequate. No follow-up action is required.

A. ONGOING ISSUER REGULATION	
3. Performance measurements	
<p>The C&D department’s management assesses staff performance using internal service standards. These standards do not measure and evaluate the C&D department’s overall regulatory effectiveness.</p> <p>The BCSC recently asked the TSX-V’s senior management to design performance measures that assess the C&D department’s overall regulatory effectiveness.</p>	
<p>Findings</p> <p>Although the C&D department has not yet established benchmarks to measure its overall regulatory effectiveness, staff are satisfied that TSX-V senior management is taking steps to remedy this situation.</p> <p>Staff reviewed nine Personal Information Form (PIF) files to test how well the TSX-V is meeting its internal service standards. Staff noted that six files had Investigative Research (IR) reports that took longer than six weeks (the standard) to be delivered to C&D. The six reports were delivered, instead, between 48 to 118 days. Staff, therefore, are concerned about how the TSX-V assesses the appropriate IR staffing level necessary to fulfill its regulatory mandate.</p>	
Risk implication	Delays in assessing the suitability of listed issuer key personnel could reduce the effectiveness of the regulatory process.
Recommendation	<p>Staff encourage the TSX-V to continue developing benchmarks to measure its regulatory effectiveness.</p> <p>Implementing consistent, meaningful measurements of the C&D department’s overall performance will assist in:</p> <ul style="list-style-type: none"> • allowing the BCSC to assess the effectiveness of the TSX-V’s regulatory performance; • determining and documenting adequate staffing to fulfill the C&D department’s regulatory mandate; and • improving the TSX-V’s transparency. <p>Given the response times noted above, staff recommend that the TSX-V should consider reviewing its IR staffing level.</p>

A. ONGOING ISSUER REGULATION	
Priority	Medium
TSX-V response	Action Plan: <i>TSX-V recognized the need for additional staffing in the IR team in the spring of 2010, and three new analysts were added over the course of the Summer and early Fall. TSX-V continues to monitor the turnaround times of the IR team and based upon current volumes, anticipates adding further staff to this team in Q1 2011.</i>
Staff comments and follow-up	TSX-V's response is adequate. No follow-up action is required.

A. ONGOING ISSUER REGULATION	
4. Reporting to the Commission	
<p>Terms 13 and 14 of the RO require that the TSX-V:</p> <ul style="list-style-type: none"> • provide notice to the BCSC of any violation of securities legislation of which it becomes aware in the ordinary course operation of its business • report all significant issues arising from issuer non-compliance with its policies and the action taken or being taken by it to deal with the situation <p><i>NI21-101</i> requires an exchange to file information, as set out on Form 21-101F, about its corporate governance, rules and policies and operations.</p> <p>The TSX-V files quarterly information with the Commissions.</p>	
Findings	
Staff found this reporting complies with the terms of the RO and <i>NI 21-101</i> .	
Risk implication	None
Recommendation	None

B. TRADING PLATFORM SYSTEMS & CAPACITY PLANNING	
Overall effectiveness	Effective
<p>The TMX’s technology division (TMX Technologies) provides technology support services to the TSX-V. The TSX-V operates on computing infrastructure common to the senior market (TSX) and the TSX-V.</p> <p>The TSX-V relies on TMX’s staff to undertake systems development, change management, and functional testing.</p>	
<p>1. Performance Criteria</p> <p>Capacity management at TMX involves a five-stage loop of processes - analysis, modeling, optimization, change, and monitoring.</p> <p>Staff considered whether the TSX-V has procedures to estimate future capacity and performance requirements.</p>	
<p>Findings</p> <p>Staff found that measurable performance criteria have been established, tracked, and regularly reported.</p>	
Risk implication	None
Recommendation	None

TRADING PLATFORM SYSTEMS & CAPACITY PLANNING	
<p>2. Capacity Estimates</p> <p>The TMX regularly measures the <i>experienced</i> average and peak capacity, the <i>projected</i> average and peak capacity, and the <i>tested maximum</i> average and peak capacity of their computing infrastructure.</p>	
<p>Findings</p> <p>Staff confirmed that TMX Technologies has the infrastructure in place to accommodate forecasted peaks and the ability to increase capacity when needed.</p>	
Risk implication	None

TRADING PLATFORM SYSTEMS & CAPACITY PLANNING	
Recommendation	None

TRADING PLATFORM SYSTEMS & CAPACITY PLANNING	
<p>3. Systems Change Management</p> <p>Change management ensures that capacity increases among other changes can take place in a managed, predictable and safe manner that does not result in service disruptions.</p> <p>Change management staff at TMX Technologies ensure that system changes go through a prescribed nine-stage process prior to approval for production.</p>	
<p>Findings</p> <p>The change management process is thorough.</p>	
Risk implication	None
Recommendation	None

TRADING PLATFORM SYSTEMS & CAPACITY PLANNING	
<p>4. The TSX-V trading system</p> <p>The TSX-V uses the same trading system as the TSX and shares technology staff, trading services staff, and product development staff. While the system is consistent, the TSX-V does not offer its POs and Members the full suite of functionality and services that are available to TSX's POs.</p>	
<p>Findings</p> <p>Sharing staff resources allows the TSX-V to access expertise and resources efficiently and cost effectively.</p> <p>The TMX Group provides information about the TSX-V platform through its website. Though the RO requires the TSX-V to operate under a separate brand and separately from the TSX, much of the information on the website does not differentiate between the TSX and the TSX-V functionality.</p>	

TRADING PLATFORM SYSTEMS & CAPACITY PLANNING

The TSX-V has a satisfactory and complete change management and testing regime. However, the TSX-V can improve its testing regime by ensuring that use cases² distinguish between TSX and TSX-V functionality in instances where these are inconsistent.

In reviewing use cases however, these deficiencies became apparent:

- use cases do not distinguish between TSX and TSX-V functionality where these are inconsistent
- use cases sometimes do not use standard terminology and BCSC staff were not provided with a glossary
- within use cases, there are often references to other provisions within that use case or within other use cases. In a limited number of situations, this reference is missing or inaccurate

The TSX-V did not provide up-to-date use cases. Our findings relate to the use cases provided by the TSX-V.

Risk implication	Should there be a failure to have adequate benchmarks for the TSX-V trading systems' operations, the TSX-V would put its Members and POs at risk that the system will not operate as intended.
Recommendation	<p>The TSX-V should:</p> <ul style="list-style-type: none"> • update all public information to identify products and services offered to TSX-V clients, POs and Members • where there are differences, ensure use cases differentiate between TSX and TSX-V functionality • develop a glossary for use cases to ensure that developers and users of use cases understand references • review use cases to ensure that cross references within these cases are up-to-date and accurate • review the use cases to determine whether they

² Use case is the term for the change management documentation used to introduce changed workflow scenarios into the trading system.

TRADING PLATFORM SYSTEMS & CAPACITY PLANNING	
	accurately reflect system functionality or need to be updated
Priority	Medium
TSX-V response	<p><i>TSX Markets staff will undertake a review of publicly available trading-related information to identify products and services of TSX-V that can be more clearly distinguished from TSX products and services. TMX Technologies staff will provide review records indicating that appropriate reviews of the use cases have been performed in order to ensure that:</i></p> <ul style="list-style-type: none"> <i>• where there are differences between TSX and TSX-V functionality, the differences are noted</i> <i>• references are appropriate</i> <i>• cross references within these cases are up-to-date and accurate</i> <i>• the use cases accurately reflect system functionality</i>
Staff comments and follow-up	BCSC staff will follow up and conclude on the outcome of TSX Markets' staff review. BCSC staff will also follow up with TMX Technologies' staff on its commitment to provide review records indicating that appropriate reviews of use cases have been performed.

C. TRADING RULES DEVELOPMENT	
Overall effectiveness	Effective
The TSX-V's responsibilities for rule-making are outlined in Ts & Cs 5, 6 and 16 of the RO.	

1. Process and resources	
Like the TSX, the TSX-V identifies the need for rule amendments through a variety of sources. These include internal staff who monitor developments in the U.S. and foreign markets as well as issues raised by market participants. Legal staff are involved in drafting all rule amendments. When needed, assistance may be provided by one of the directors of Listed Issuer Services (LIS) or C&D and TSX business staff members with expertise in a specialized area.	
Findings The rule development process is comprehensive and resources appear satisfactory.	
Risk implication	None
Recommendation	None

TRADING RULES DEVELOPMENT	
2. Measuring the effectiveness of the process	
Staff reviewed the TSX written rule-making procedures (TSX-V's rule-making procedures are the same as TSX's), updated as of 2009, and compared the procedures to the protocol for rule review set by the BCSC and ASC.	
In addition, staff reviewed the TSX Inc's responses to the findings made by the OSC in its 2008 review. Staff concluded that the TSX had accepted all of the findings and had made all necessary changes to its rule development process.	
Findings Staff found that the TSX-V rule-development process was effective.	
Risk implication	None
Recommendation	None

TRADING RULES DEVELOPMENT

3. Compliance with rule review process	
Staff reviewed the rule proposals log for the review period and reviewed, in detail, a sample rule-review file. Staff also reviewed the Rule Amendment Feasibility Report, the Rule Amendment Checklist and the internal Rule Amendment Report as of April 2010.	
Findings Staff found that the TSX-V complied with the rule review process (T & C 16 of the RO) in developing its trading rules during the review period.	
Risk implication	None
Recommendation	None

TRADING RULES DEVELOPMENT	
4. File review Staff reviewed the dark and hybrid pegged order types (rule identifier I-14-09) file in detail.	
Findings The file appears comprehensive and well organized. There is evidence of significant consideration whether a rule was needed, considerable consultation with internal and external stakeholders, and industry research. The file also contains a clear record of consultation with regulators. The rationale for the rule proposal is well developed and the request for approval is clearly set out. In the particular case, a request for an exemption from the need for pre-publication of the rule was also granted.	
Risk implication	None
Recommendation	None

D. PARTICIPATING ORGANIZATION ACCESS & TRADING REGULATION	
Overall effectiveness	Partially effective

D. PARTICIPATING ORGANIZATION ACCESS & TRADING REGULATION

1. Department structure and resources

The TSX-V has outsourced many of its trading regulation responsibilities for the Universal Market Integrity Rules (UMIR) to IIROC, which monitors compliance with UMIR. IIROC is also responsible for carrying out investigations and enforcement actions for UMIR violations. In addition, IIROC monitors compliance with specific TSX-V rules and, at the direction of the TSX-V, will conduct investigations and carry out enforcement actions where a violation of a TSX-V rule occurs.

As the bulk of the responsibility for trading regulation is outsourced to IIROC, the TSX-V does not have staff dedicated to trading regulation.

Under the terms of its regulatory service contracts with IIROC, the TSX-V reports annually to the BCSC on IIROC's performance.

Findings

This approach seems reasonable and efficient. IIROC staff have sufficient resources to carry out these activities while not having the same potential for conflict of interest in this area as the TSX-V.

Risk implication	None
Recommendation	None

PARTICIPATING ORGANIZATION ACCESS & TRADING REGULATION

2. PO access - review and approval process

The TSX-V indicated that its criteria for accepting applicants as POs are they must:

- (i) be a dealer member of IIROC
- (ii) execute an appropriate Member/Participating Organization agreement
- (iii) establish an appropriate connection with the TSX-V's trading systems

These requirements impose specific systems and client agreement obligations on POs. The TSX-V staff indicated that they rely on IIROC's vetting of trader applicants.

The TSX-V legal staff handle PO contract execution. Trading services staff deal with systems connectivity, trading numbers, and trader identification issues.

Findings

PARTICIPATING ORGANIZATION ACCESS & TRADING REGULATION

While the TSX-V does not have a written procedure manual relating to their PO approval process, the above process seems reasonable. However, establishing clear written procedures that are publicly available will help ensure that all applicants are treated fairly, in accordance with the requirements set out in *National Instrument 21-101*.

Risk implication	Without transparent policies and procedures relating to PO approval, there is a risk that prospective POs might perceive they are not treated consistently and fairly and a related risk that they will not, in fact, be treated fairly and consistently.
Recommendation	The TSX-V should adopt written policies and procedures for its PO approval process. The policies and procedures should clearly outline responsibilities within the TSX-V and those outsourced to IIROC.
Priority	Medium
TSX-V response	<i>TSX Markets, which oversees the PO approval process for TSX-V, will create written procedures for the PO approval process. We note that, although we rely on appropriate IIROC member registration in order to approve a new TSX-V PO, the procedure to approve a new TSX-V PO does not include outsourcing to IIROC.</i>
Staff comments and follow-up	TSX-V's response is adequate. No follow-up action is required.

PARTICIPATING ORGANIZATION ACCESS & TRADING REGULATION

PARTICIPATING ORGANIZATION ACCESS & TRADING REGULATION

3. Direct Market Access- review and approval process

The TSX-V rulebook sets out specific requirements for direct market access (DMA) through the TSX-V Members and POs. These requirements impose specific systems and DMA agreement obligations on Members and POs.

IIROC monitors Members' and POs' compliance with the TSX-V's DMA rules as an element of trade conduct compliance reviews. The TSX-V receives a written report from IIROC outlining its reviews findings.

Findings

It is efficient for the TSX-V to use IIROC to monitor compliance with DMA access requirements. However, it appears that:

- the TSX-V does require sponsoring Members and POs to assign unique trading identifiers to DMA clients and does provide information to IIROC to allow IIROC to undertake real-time surveillance of DMA activity
- the TSX-V does not have procedures for following up on IIROC trade conduct compliance report findings. Where the IIROC reports indicate that some Members and POs do not comply with the TSX-V's DMA rules, and there is no evidence of TSX-V regulatory actions

Risk implication

Non-compliance with DMA rules could result in considerable risks to the TSX-V and TMX. In addition, undocumented DMA access could present market integrity concerns.

Recommendations

- The TSX-V should document its staff's compliance with its internal procedures for approving and providing access to DMA clients. While this documentation does not need to be extensive, there should be sufficient information to indicate TSX-V staff activity when approving access and DMA client connection.
- The TSX-V should adopt and implement procedures to review IIROC DMA reports and make investigation and enforcement decisions when violations are reported.

PARTICIPATING ORGANIZATION ACCESS & TRADING REGULATION	
Priority	High
TSX-V response	<p><i>TMX Markets and the General Counsel's Office of TMX Group will:</i></p> <ul style="list-style-type: none"> • <i>create a system to document its staff's compliance with its internal procedures for approving and providing access to DMA clients.</i> • <i>design procedures to address the review of IIROC DMA reports and resulting actions</i>
Staff comments and follow-up	BCSC staff will follow-up with TMX Group's General Counsel staff for a timeline for adoption, documentation and implementation of these procedures.

PARTICIPATING ORGANIZATION ACCESS & TRADING REGULATION
<p>4. Traders - review and approval process</p> <p>The TSX-V rulebook sets out all requirements for approved traders and their access to the TSX-V trading systems. Section C.2.25 indicates the qualifications that meet the TSX-V's requirements.</p> <p>Firms send in an application for each approved trader, which must be accompanied by proof of the trader's registration with IIROC and successful completion of the trader-training course.</p> <p>The TSX-V relies on IIROC's registration of approved traders as a prerequisite to TSX-V approval.</p> <p>The TMX's trading services staff reviews all applications and provides the necessary approval.</p>
<p>Findings</p> <p>The TSX-V's reliance on IIROC is reasonable as IIROC has access to information that may be unavailable to TSX-V, it reduces redundancy, and it addresses potential issues relating to TSX-V conflict of interest in regulating a key group of customers.</p> <p>However, the TSX-V does not maintain files documenting each trader approved or, generally, for the trader approval procedures.</p>

PARTICIPATING ORGANIZATION ACCESS & TRADING REGULATION	
Risk implication	Undocumented procedures expose the TSX-V to inconsistent application of its approval process and provide no assurance that access is granted in accordance with the requirements in <i>NI 21-101</i> .
Recommendation	TSX-V should maintain: <ul style="list-style-type: none"> • written procedures for approving traders • documentation for each approval. While this documentation is not expected to be extensive, it should include the application and IIROC's approval • records of exemptive relief for trader proficiency granted by IIROC. The TSX-V should also review such relief prior to granting access to the TSX-V's trading platform and document its review
Priority	Low
TSX-V response	<i>TSX Markets will:</i> <ul style="list-style-type: none"> • <i>review current approved trader practices to determine the appropriate manner in which to document this process and each approval.</i> • <i>review the type of IIROC information that is relied upon during the trader approval process to determine what, if any, exemptive relief information from IIROC would be accessible and relevant for purposes of this process.</i>
Staff comments and follow-up	BCSC staff will continue its dialogue with TSX-V staff on this issue and will note any changes to the TSX-V's processes for follow-up in future oversight reviews.

PARTICIPATING ORGANIZATION ACCESS & TRADING REGULATION
<p>5. Odd-Lot dealers</p> <p>The TSX-V does not have market-makers. However, they do appoint dealers to act as odd-lot dealers. Policy Statement CR11 provides an overview of the TSX-V's odd-lot dealer policies.</p> <p>Odd-lot dealers are appointed for a security at the discretion of TSX-V staff and the odd-</p>

PARTICIPATING ORGANIZATION ACCESS & TRADING REGULATION	
lot dealer allocation process is administered by trading services staff.	
<p>Findings</p> <p>The system for allocating securities for odd-lot dealers appears reasonable and fair.</p> <p>Although TSX-V staff are fully knowledgeable and accustomed to the odd-lot allocation process in use, there are no documented procedures.</p>	
Risk implication	Without written procedures, there is a risk of operational disruption in the event of unforeseen staff absences.
Recommendation	<p>The TSX-V should:</p> <ul style="list-style-type: none"> • update Policy Statement CR11 to provide a comprehensive written policy regarding odd-lot dealers and their obligations • adopt procedures to ensure odd-lot dealers are complying with their obligations.
Priority	Low
TSX-V Response	<p><i>The TSX-V will:</i></p> <ul style="list-style-type: none"> • <i>review Policy Statement CR11 to determine whether any odd-lot dealers obligations are not appropriately set out in CR11</i> • <i>review current odd-lot dealer practices to determine whether procedures need to be adopted in this area</i>
Staff Comments and Follow-up	BCSC staff will continue its dialogue with TSX-V staff on this issue and will note any changes to the TSX-V's processes for follow-up in future oversight reviews

PARTICIPATING ORGANIZATION ACCESS & TRADING REGULATION
<p>6. Trading rule monitoring & enforcement</p> <p>The TSX-V has retained IIROC, under a regulation services agreement and related documents, to monitor compliance with TSX-V rules on the TSX-V's behalf. Under the terms of this agreement, the TSX-V reports annually to the BCSC on IIROC's performance.</p>

PARTICIPATING ORGANIZATION ACCESS & TRADING REGULATION	
<p>Although responsibility for monitoring compliance with rules relating to DMA access and normal course issuer bids remains with the TSX-V, there is no TSX-V employee dedicated to monitoring its trading rules.</p>	
<p>Findings The TSX-V's reliance on IIROC is reasonable, since IIROC possesses sufficient resources and capacity to act on issues uncovered.</p> <p>While the TSX-V does have specific agreements with IIROC setting out each party's obligations relating to IIROC's monitoring compliance with TSX-V rules, the TSX-V does not have documented procedures outlining how it will carry out its responsibilities under this model. Staff found no evidence indicating which staff are responsible for making decisions to refer cases to IIROC for investigation and enforcement action. In addition, the TSX-V does not maintain records of its actions following reports of potential violations.</p>	
Risk implication	Without clear policies and procedures, the TSX-V risks not being able to carry out its regulatory obligations as an exchange.
Recommendation	The TSX-V should adopt written procedures outlining the processes for conducting compliance with all the TSX-V rules, referring the investigation of violations to IIROC and referring enforcement actions to IIROC. In each case, the procedures should outline who will be responsible for conducting the reviews and making appropriate decisions. In addition, the TSXV should maintain records relating to violations reported, including a record of decisions made and actions undertaken.
Priority	Medium
TSX-V response	<i>TSX-V will design written procedures outlining the processes for monitoring compliance reviews with TSX-V trading rules, including processes leading to interaction with IIROC for investigative or enforcement actions to IIROC.</i>
Staff comments and follow-up	TSX-V's response is adequate. BCSC staff has noted this for future ongoing monitoring of TSX-V's operations.

PARTICIPATING ORGANIZATION ACCESS & TRADING REGULATION

7. Exemptions and Waivers

The TSX-V may occasionally get requests from prospective traders for relief from the proficiency requirements.

TSX-V staff indicated that they have not recently considered any other exemption requests or waivers from their rules.

Findings

The TSX-V does not have any documented procedures in relation to any requests for exemptions from, or waiver of, its rules or other requirements.

Risk implication

Without clear written policies outlining the processes for granting exemptive relief, or waiving requirements, the TSX-V staff do not have adequate guidance to ensure they comply with administrative law standards.

Recommendation

Adopt written procedures to address requests for exemptions from or waivers of TSX-V rules and requirements. Publish these procedures to ensure that Members, POs or other stakeholders are aware of the process.

Priority

Low

TSX-V response

TSX-V will create written procedures to address requests for exemptions from or waivers of TSX-V trading rules and requirements.

Staff comments and follow-up

TSX-V's response is adequate. BCSC staff has noted this for follow-up in future oversight reviews.