

## **Proposed guidance to the recognition order of egX Canada Inc.**

This guidance is to assist egX in understanding how the Commission interprets the requirements of Schedule A - *Conditions of Recognition* to the Order. Although this guidance includes specific suggestions about how egX could comply with those requirements, it neither replaces the outcomes required by Schedule A, nor precludes egX from taking alternative steps to achieve those outcomes.

In addition to being required to comply with this order, egX must comply with the requirements of the *Securities Act*, National Instrument 21-101 *Marketplace Operations*, National Instrument 23-101 *Trading Rules*, and other securities regulatory requirements that apply to exchanges.

Paragraph numbers in this guidance correspond to the same paragraph numbers in Schedule A.

### **Public interest**

egX should consider documenting or explaining how it has accounted for the public interest when it

- designs regulatory instruments,
- educates its participants and issuers about its regulatory instruments,
- takes compliance action,
- makes access decisions, and
- takes disciplinary action.

### **Corporate governance**

egX's obligation to ensure effective oversight assumes that it will comply with the *Business Corporations Act*, which, among other things, sets out standards for remuneration of directors and officers and conflicts management among directors.

An effective corporate governance system requires a written policy and procedures for corporate governance. In designing its policy, egX could look to the governance policies and practices of other exchanges and to the governance requirements imposed by securities regulation on public issuers.

If egX's governance system is to be effective, it will balance egX's commercial objectives with its public interest mandate. For example, it should ensure that its Board is constituted so that the interests of egX's stakeholders are appropriately represented. In doing so, egX should consider the number, role, and skills of independent directors.

egX should also consider the procedures it needs to monitor and enforce compliance with its governance policy and practices.

## **Conflicts of interest**

To effectively identify and manage conflicts of interest, egX will need a written policy and procedures. egX should also consider the procedures it needs to monitor and enforce compliance with its conflicts of interest policy and practices.

In designing its conflicts management policy, egX should ensure it is broad enough to encompass the potential and perceived conflicts of interest in all of its relationships, including those with its key personnel, its affiliates and associates, dealers, participants, suppliers, and issuers.

## **Access**

“Fair” in paragraph 5 does not necessarily mean that each participant and each issuer must be treated the same, but it does mean that they must be treated equitably. egX could achieve transparency by publishing its access criteria with an explanation, perhaps with examples, of why the criteria deliver fair results.

In applying its access criteria, egX could demonstrate that the criteria and their application deliver fair results by explaining how it applied the criteria, and why the result was fair.

Fee setting is one aspect of fair access. The same considerations that apply generally to fair access also apply generally to fee setting.

## **Financial viability and reporting**

egX will need to exercise its business and public interest judgment when assessing its financial resources and managing any capital related conflicts.

## **Compliance and controls**

To ensure its systems for compliance and internal controls are effective, egX should adopt:

- written policies and procedures where appropriate;
- procedures to monitor and enforce compliance with its policies and procedures, including an appropriately rigorous internal audit function;
- systems to track, monitor, and record order and trade activity; and
- systems to track, monitor, and record listing activity.

When egX uses technology as part of its compliance and internal control systems, the technology should meet industry standards for capacity, systems integrity, and security. If the nature of egX’s business suggests that egX should apply higher standards, then egX should apply those higher standards.

## **Outsourcing**

The factors the Commission will consider if egX seeks its consent for an outsourcing arrangement include:

- the impact of the arrangement on egX's ability to meet regulatory requirements, including the requirements of the recognition order;
- whether the arrangement preserves the Commission's ability to have unfettered access to all information relating to egX and its operations in order to oversee effectively egX's compliance with regulatory requirements, including the recognition order; and
- the degree to which egX has taken reasonable steps to protect itself and its stakeholders from any regulatory or business risks associated with the arrangement.

## **Clearing and settlement**

A recognized clearing agency includes a clearing agency recognized in other Canadian jurisdictions.

## **Regulation**

To ensure it regulates its marketplace effectively, egX should consider the following:

### ***Listings***

- regulatory instruments relating to listing
- systems to monitor the conduct of its listed issuers and enforce compliance with its regulatory instruments
- policies and procedures relating to its decisions about applicants for listing, listed issuers, and persons associated with those issuers

### ***Market regulation***

- regulatory instruments governing the conduct of its market participants
- systems to monitor the conduct of its market participants and enforce compliance with its regulatory instruments
- policies and procedures relating to decisions about its market participants

### ***Enforcement***

- policies and procedures for determining whether a person has contravened egX's regulatory instruments, and for imposing sanctions for those contraventions, that conform to established principles of administrative law applicable to egX

### ***Administration***

- hiring policies to ensure that its staffing levels are sufficient to meet its regulatory responsibilities

- human resources policies and procedures that ensure its staff has the knowledge, skills, and experience necessary to comply with all regulatory requirements, including the recognition order
- procedures to ensure effective oversight of third parties contracted to carry out regulatory functions for egX
- information systems that ensure the effective transmission of relevant information within the organization

### **Regulatory instrument review process**

The Commission reviews regulatory instrument proposals to ensure that they are not objectionable. The regulatory instrument review protocol is available on the Commission website ([www.bcsc.bc.ca](http://www.bcsc.bc.ca)). [Note to draft: We expect to draft and finalize the regulatory instrument review protocol while the summary of this application is out for comment.]

### **Accountability**

There is currently no guidance on this paragraph.

### **Information sharing and regulatory cooperation**

There is currently no guidance on this paragraph.