

RULE 7 – FINANCIAL REPORTING AND CAPITAL REQUIREMENTS

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RULE 7 – FINANCIAL REPORTING AND CAPITAL REQUIREMENTS

Part 7A Financial Reporting

7A.01 General

All Participants must provide financial information to the Exchange and maintain financial standing in conformity with these Rules.

7A.02 Filing of Financial Statements

- a. The following categories of Participants are required to file financial information;
 - (1) Merchant Multi-Commodity;
 - (2) Clearing Participants; and
 - (3) Futures Commission Merchants.

7A.03 Financial Information Requirements for Merchants

All Merchant Participants in the category of Multi-Commodity shall file;

- a. with their written Participant application, audited financial statements for the most recent year ended and unaudited financial statements for the most recent quarter ended.
- b. after acceptance as a Participant, annual audited financial statements within one hundred and twenty (120) days from the end of the fiscal period to which they refer and unaudited financial statements on a quarterly basis, within forty-five (45) days of each quarter end, including the fourth quarter.

An applicant, or a registered Participant may apply, in writing, to the Board seeking permission to file unaudited annual financial statements and must provide reasons for the failure to have its financial statements audited. The decision of the Board as to whether or not to accept unaudited financial statements, and for what period of time, will be final.

- c. The financial statements referred to herein shall be accompanied by a completed “Financial Questionnaire and Report Form” as set out in the Annexures, and an adjusted net capital in the form prescribed by the Exchange.

Administrative amendment effective Trade Date February 10, 2017 [7A.03 title].

7A.04 Financial Information Requirements for Futures Commission Merchants

All Futures Commission Merchants, required to file financial information, shall file financial statements and other financial information, in accordance with the requirements of all regulatory authorities and SROs whose jurisdiction they are subject to. Copies of such statements must be provided to the Exchange upon request.

7A.05 Extension of Filing Time

The Exchange may, agree to extend the time for filing any required financial information if, in the opinion of the Exchange, it is appropriate to do so.

Administrative amendment effective Trade Date February 10, 2017 [7A.05].

7A.06 Failure to File or Late Filing

In the event that a Participant fails to file the required financial information, by the date prescribed, and does not obtain an extension, or fails to provide the notifications required under this Rule, then the matter may proceed to a hearing before the Special Regulatory Committee which hearing may be brought on an ex-parte basis.

Administrative amendment effective Trade Date February 10, 2017 [7A.06].

7A.07 Filing Requirements for a Subsidiary Company

If a Participant is or becomes a subsidiary, then the person, or company exercising voting control (the "Controlling Entity") of the Participant may be required to file an agreement to indemnify the Exchange and all other Participants for all acts and transactions of the subsidiary. In addition, the Controlling Entity may be required to file financial statements. Failure of the Controlling Entity to agree to file such financial statements will result in immediate suspension of the Participant.

Part 7B Capital Requirements

7B.01 Capital Requirements – Participants

- a. Participants shall maintain the following minimum capital standards:
 - (1) Futures Commission Merchants including FCMs registered as Clearing Participants;
 - (i) if registered in Canada, the financial standards of its designated SRO which shall be a member organization of the Canadian Investors Protection Fund;
 - (ii) if registered in the United States the financial standards of its Designated Self-Regulatory Organization as defined by the Commodity Futures Trading Commission.
 - (iii) if registered other than in Canada or the United States, the financial standards as required by its government authority and/or SRO.
 - (2) Merchant Participants in the category of Multi-Commodity, and Clearing Participants registered in the category of General; a financial position of at least \$2,000,000 of adjusted net capital and a net worth that exceeds the total capacity of all its elevators registered with the Exchange multiplied by \$50.00 (in tonnes).
 - (3) All other companies required to file financial information with the Exchange; \$250,000 of adjusted net capital.
- b. Adjusted net capital shall be determined by aggregating the following:
 - (1) The sum of the following at 100%;
 - (i) total capital identified on financial statements,
 - (ii) long term liabilities excluding loans from partners, officers or shareholders,

- (iii) postponement of obligations,
 - (iv) committed unused long term facilities,
 - (v) market value of securities in excess of cost if not otherwise included in (i) above
- (2) Less the sum of the following at 100%;
- (i) property, plant and equipment
 - (ii) all other long term assets
 - (iii) the minimum guaranty fund deposit if the Merchant is also a Clearing Participant,
- (3) Less the sum of the following:
- (i) Cash deposits at 0% (zero percent);
 - (ii) Marketable Securities
 - A. Canadian or US Government Securities maturing within 1 year at 0% (zero percent) of market value,
 - B. all other marketable securities at 20% of quoted market value;
 - (iii) All inventories at 8% of the lower of cost or market value;
 - (iv) Accounts Receivable arising in the ordinary course of business, inclusive of a reasonable reserve for doubtful accounts, at 2.5%; and
 - (v) Other current assets at 100%.

Administrative amendments effective Trade Date February 10, 2017 [7B.01 b. (2) (iii), (3) (i), (iii), and (iv)].

7B.02 Participants to Report

All Participants required to file financial information in accordance with these Rules must advise the Exchange, in writing, immediately upon becoming aware that there is an indication that it will fall below the required capital requirements. The Participant is to provide detailed information as to how and why its financial situation fallen, has or is expected to fall, below the minimum capital standards required for its participant status. The Participant shall provide the Exchange with such further information as the Exchange may require.

7B.03 Failure of Participant to meet Minimum Capital Requirements

The Exchange will review all financial information pertaining to participants, whether provided in connection with Rule 7B.02 or otherwise, and shall make such determination as to additional requirements to be met by the participant as it shall, in its absolute discretion, deem reasonable. In the event that the Participant has Warrants outstanding, the Exchange will immediately call for such additional indemnification as it deems reasonable. If time and circumstances permit, the Exchange may consult with the Participant and work with that Participant to determine the most appropriate next steps. Without in any way limiting the generality of the forgoing, the Exchange may determine;

- a. that the Participant be permitted to retain its Participant status on conditions that restrict certain privileges of Participant status, such as not being permitted to issue Warrants or being permitted to issue Warrants in such amounts as the Exchange deems appropriate, and/or that any Warrants issued be subject to additional amounts of indemnification above those amounts defined in the Rules;

- b. that the Participant provide additional cash or Letters of Credit in such amounts and on such terms and conditions, as the Exchange determines reasonable;
- c. that the Participant provide a postponement agreement, which agreement postpones any claim or demand that a partner, officer, or shareholder may have against the assets of the Participant. Any postponement agreement shall be in such form as the Exchange shall stipulate;
- d. that the Participant provide a written guarantee executed by a parent company or other entity. Any guarantee shall be in such form as the Exchange shall stipulate;
- e. that the Participant's status be suspended or terminated, effective on such date(s) as the Exchange determines; or
- f. any combination of the foregoing.

Provided that in no case will a Participant registered in the category of Futures Commission Merchant be permitted to continue to maintain registration in such category with the Exchange if its registration status with its statutory regulatory authority or designated SRO is revoked or terminated, and any conditions imposed on it by such bodies will be applied equally to its status at the Exchange. Provided further, that in no case will this Rule take precedence over the Default Rules and their application.

7B.04 Determination of Claims and Proceedings on Guarantees and Postponements

- a. The right to pursue all claims against any entities on the executed guarantee and/or postponement agreements is strictly that of the Exchange. The President or his designate shall, in his or her sole discretion, make all determinations respecting all matters concerning claims against entities who are liable under guarantee and/or postponement agreements and such determinations shall be final. Without limiting the generality of the foregoing, the President or his designate will not be required to provide notice of any hearing considering any matter to any entity, nor shall it be required to give any entity an opportunity to be heard prior to making any determination.
- b. In the event that the Exchange obtains any funds from any entity under the provisions of a guarantee or postponement agreement, the President or his designate shall distribute such proceedings as follows firstly to pay all fines, dues, assessments and charges due to the Exchange by the Merchant Participant who was the subject of the agreement, including full payment of any or all legal fees, accountant's charges and any other expenses whatsoever incurred by the Exchange as the President or his designate in his or her absolute discretion may determine.