

## **Headnote**

Mutual Reliance Review System for Exemptive Relief Applications – Electronic trading system specializing in natural gas contracts and related swap contracts exempted from the prohibitions in securities and commodity futures legislation against carrying on business as an exchange without being recognized and trading futures contracts on an exchange not recognized and the form of contract not accepted, as well as registration and prospectus relief for trades in the natural gas contracts and related swap contracts by the trading system and its participants.

## **Applicable Alberta Statutory Provisions**

Securities Act, R.S.A., 2000, c.S-4, ss. 62, 75, 106, 144 and 213

IN THE MATTER OF THE SECURITIES LEGISLATION OF  
ALBERTA, SASKATCHEWAN AND MANITOBA

AND

IN THE MATTER OF  
THE MUTUAL RELIANCE REVIEW SYSTEM FOR  
EXEMPTIVE RELIEF APPLICATIONS

AND

IN THE MATTER OF NATURAL GAS EXCHANGE INC.  
AND NGX FINANCIAL INC.

1. WHEREAS the Canadian securities regulatory authority or regulator (the “Decision Maker”) in each of Alberta, Saskatchewan and Manitoba (the “Jurisdictions”) has received an application from Natural Gas Exchange Inc. (“Exchange”) and NGX Financial Inc. (“Financial”) (together, the “Filer”) for a decision pursuant to the securities legislation, and where applicable, the commodities legislation of the Jurisdictions (the “Legislation”) that the Filer be exempt from:
  - 1.1 the prohibition in the Legislation against carrying on business as an exchange unless recognized as an exchange;
  - 1.2 the prohibition in the Legislation against trading exchange contracts or commodity futures contracts on an exchange not recognized or unless the form of contract has been accepted in the Jurisdictions; and
  - 1.3 the requirement to be registered or file a prospectus or other disclosure document in the Legislation in connection with trades in natural gas exchange contracts or natural gas commodity futures contracts and swap contracts related to natural gas or electricity by the Filer or any contracting party through the electronic trading and clearing system operated by the Filer;

2. AND WHEREAS pursuant to the Mutual Reliance Review System (the “System”), the Alberta Securities Commission is the principal regulator (the “Principal Regulator”) for this application;
3. AND WHEREAS it was represented by the Filer to the Decision Makers that:
  - 3.1 The Filer operates an electronic trading and clearing system (the “Trading System”) in Calgary, Alberta for trades of natural gas exchange contracts, natural gas commodity futures contracts, and related swap contracts by contracting parties;
  - 3.2 The Filer has operated the Trading System since 1993 in accordance with the terms and conditions of prior orders of the Decision Makers;
  - 3.3 Access to the Trading System is limited to contracting parties each of which has, or is a wholly-owned subsidiary of a business entity that has, a net worth exceeding \$5,000,000 or total assets exceeding \$25,000,000;
  - 3.4 The Filer is capable of complying with the operating principles listed in Appendix A and will comply with the operating principles for the duration of this decision;
  - 3.5 The Filer has undertaken to keep trading, financial and other records sufficient to demonstrate compliance with the operating principles listed in Appendix A, make them available and submit data promptly to the Decision Makers on request; and
  - 3.6 The Filer plans in the near future to expand the products available for trading through the Trading System to include swap contracts related to electricity;
4. AND WHEREAS pursuant to the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively, the “Decision”);
5. AND WHEREAS each of the Decision Makers is satisfied that the test contained in the Legislation that provides the Decision Maker with the Jurisdiction to make the Decision has been met;
6. THE DECISION of the Decision Makers in the Jurisdictions pursuant to the Legislation is that, in connection with its Trading System, the Filer is exempt from:
  - 6.1 the prohibition in the Legislation against carrying on business as an exchange unless recognized as an exchange;
  - 6.2 the prohibition in the Legislation against trading exchange contracts or commodity futures contracts on an exchange that is not recognized or unless the form of contract has been accepted; and
  - 6.3 the requirement in the Legislation to be registered or file a prospectus or other disclosure document in connection with trades in natural gas exchange contracts, natural gas commodity futures contracts, and swap contracts related to natural gas

or electricity by the Filer or a contracting party through the Trading System operated by the Filer;

provided that:

- 6.4 The Filer complies with the operating principles listed in Appendix A and keeps trading, financial and other records sufficient to demonstrate compliance with the operating principles listed in Appendix A;
- 6.5 The Filer immediately informs the Principal Regulator of any event, circumstance or situation that materially affects the Filer's ability to comply with the operating principles listed in Appendix A;
- 6.6 The Filer files with the Principal Regulator any revisions to the Contracting Party's Agreement within 2 business days of the effective date of the revision;
- 6.7 The Filer immediately informs the Principal Regulator of any material change in the operation of the Trading System or in the beneficial ownership of the securities of the Filer; and
- 6.8 This Decision will expire on December 1, 2004.

Dated June 7th, 2002

“original signed by”  
Eric T. Spink, Vice-Chair

“original signed by”  
Thomas G. Cooke, Q.C., Member

Appendix A  
Operating Principles

1. **Financial Resources** - Maintain adequate financial, operational and managerial resources to operate the Trading System and support its trade execution and clearing functions.
2. **Operational information relating to trading system and contracts** - Provide public disclosure of information about contract terms and conditions, trading conventions, mechanisms and practices, financial integrity protections and other information relevant to participants.
3. **Market oversight** - Establish appropriate minimum standards for participants and programs for on-going monitoring of the financial status or credit-worthiness of participants; monitor trading to ensure an orderly market; and maintain authority to collect or capture and retrieve all necessary information and to intervene as necessary to ensure an orderly market.
4. **Rule Enforcement** - Maintain adequate arrangements and resources for the effective monitoring and enforcement of the rules of the facility and for resolution of disputes and have the capacity to detect, investigate and enforce those rules (including the authority and ability to discipline, limit, suspend or terminate a participant's activities for violations of system rules).
5. **System Safeguards** - Establish and maintain:
  - a program of oversight and risk analysis to ensure automated order entry and clearing systems function properly and have adequate capacity and security, including emergency procedures and a plan for disaster recovery to ensure daily processing, clearing and settlement of transactions; and
  - a program of periodic objective system testing and risk review to assess the adequacy and effectiveness of the Trading System's internal control systems and financial integrity protections, including a risk review of every new service and significant enhancement to existing services.
6. **Transparency** - Make information on settlement prices, price range, trading volume, open interest and other related market information available daily to participants.
7. **Record keeping** - Maintain records of all activities related to the trading system's business in a form and manner acceptable to the Commission for a period of five years and provide an undertaking to make books and records available for inspection by Commission representatives on request.
8. **Risk management** – Identify and manage the risks associated with clearance and settlement through the use of appropriate tools and procedures such as risk analysis tools and procedures, collateral, margin and credit limits.
9. **Settlement procedures** - Prescribe standards and procedures to protect and safeguard participants' funds and limit concentration of risk, including the safekeeping of funds in accounts in depositories or with custodians, that meet industry standards.