



OANDA[®]
CANADA

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September 20, 2012

To:

Alberta Securities Commission
Autorité des marchés financiers
British Columbia Securities Commission
Manitoba Securities Commission
New Brunswick Securities Commission
Nova Scotia Securities Commission
Ontario Securities Commission

Sent via email:

John Stevenson, Secretary, Ontario Securities Commission: jstevenson@osc.gov.on.ca
Me Anne-Marie Beaudoin, Corporate Secretary, Autorité des marchés financiers:
consultation-en-cours@lautorite.qc.ca

Response to CSA Consultation Paper 91-406 Derivatives: OTC Central Counterparty Clearing

Thank you for providing OANDA (Canada) Corporation ULC ("OANDA") with the opportunity to provide input with respect to the Canadian Securities Administrators (the "CSA") Consultation Paper 91-406 Derivatives: OTC Central Counterparty Clearing (the "Paper"). We understand this consultation process will be continuing, and we look forward to the opportunity to provide additional comments and respond to any questions the CSA may have.

OANDA is a registered Investment Dealer in each province and territory and incorporated under the laws of Alberta with its principal office in Toronto, Ontario. OANDA is a member of the Investment Industry Regulatory Organization of Canada ("IIROC") offering over-the-counter leveraged foreign exchange contracts ("forex") and contracts-for-difference ("CFD") trading on an order-execution-only basis since 2009. OANDA and its affiliates (collectively the "OANDA Group") was one of the first providers of a fully automated online currency trading with the launch of our proprietary trading platform, fxTrade, in 2001.

OANDA supports the overall goal of reducing counterparty and transparency risk in the OTC derivatives market; however, central clearing of forex and CFDs is not necessary to achieve this objective. OANDA, for example, manages its counterparty risk simultaneously hedging all client positions with its parent, OANDA Corporation, which is an Acceptable Counterparty (as defined in IIROC rules). OANDA Corporation, in turn, automatically offsets each position against other client positions at the OANDA Group level on a real-time basis and hedges out excess risk immediately amongst its institutional liquidity providers. The hedging is done automatically without any human intervention and minimizes counterparty risk. OANDA is also committed to transparency in the market place and publishes current and past spreads and interest rates on our website. Customers have online access to their entire account history, including the price and time of each order. We also publish a current Forex Order Book on our website, fxtrade.oanda.com/analysis/forex-order-book, which displays the entry prices for all open positions



currently held by the OANDA Group's customers. To increase the ability for regulators to detect market abuse, such as price manipulation, OANDA is willing to submit daily reports to IIROC with the prices of all customer transactions.

Below we respond to Question 2 of the Paper: *For which asset classes do you consider CCP clearing is inappropriate or not currently feasible based on the factors described herein, and for what reasons?*

As noted at page 11 of the Paper, "the G20 leaders agreed that all **standardized** OTC derivatives should be centrally cleared." OANDA considers central counterparty ("CCP") clearing to be inappropriate for forex and CFD products as they are not standardized: they have different position sizes, different currencies, unlimited duration, no possession of underlying assets, and different contract terms across forex and CFD providers.

Furthermore, Canada has a robust regulatory regime governing forex and CFD providers, which are required to be members of IIROC and to be registered as an Investment Dealer with the provincial/territorial regulatory authorities where they operate. IIROC conducts regular onsite business practices and financial and operations audits to ensure members have adequate controls in place. Strict membership requirements and regular reporting requirements by IIROC act to diminish counterparty risk. In addition to the hedging process described above, the following protections and risk management controls are already implemented by OANDA:

- Liquidity is provided by globally-operated banks and financial institutions, which provide real-time interbank prices, and who are themselves heavily regulated. And in the case of CFDs, pricing and liquidity is provided in relation to the underlying index or commodity futures which are already exchange traded and therefore the pricing of underlying benchmarks is fully transparent.
- Margin requirements are put in place to protect consumers from taking on excessive leverage. Minimum margin requirements are established, continuously monitored and varied as appropriate, by IIROC. OANDA never exceeds 50:1 margin for its customers, even where margins exceeding 50:1 are permitted.
- IIROC imposes risk adjusted capital requirements on its members, which OANDA exceeds. OANDA and other IIROC Dealer Members are also required to participate in and contribute to the Canadian Investor Protection Fund, which protects eligible customer accounts for up to \$1 million in the event of a member's insolvency.

Central clearing of forex and CFD products may create new risks for customers, such as delays in settlement. Currently, settlement (purchase and sale) is offered on an immediate basis. OANDA is concerned that central clearing of forex and CFD products will result in delays, as customer trades may not be settled and funds made available for days.

Lastly, CCP clearing of forex and CFD products would result in increased costs for traders, many of which are retail clients. Increased transaction costs in Canada could drive Canadian investors to offshore jurisdictions which are not subject to central clearing and do not have appropriate regulatory oversight or customer protections in place.



OANDA is supportive of providing a strong regulatory environment for the protection of consumers, other market participants and the broader Canadian economy; however, central clearing of forex contracts and CFDs is inappropriate, unnecessary and costly. The forex market represents the world's largest trading market and with exchange rates available online to the public, is also one of the most transparent markets. Furthermore, retail traders represent a very small portion of the forex market and thus minimal potential for systemic risk in the financial system.

Sincerely,

A handwritten signature in blue ink that reads 'Michael Borland'.

Michael Borland
Chief Executive Officer
OANDA (Canada) Corporation ULC