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**30 March 2015**

**Re: Canadian Securities Administrators (CSA)  
CSA Consultation Paper 92-401 – Derivatives Trading Facilities**

The Global Foreign Exchange Division (GFXD) of the Global Financial Markets Association (GFMA) welcomes the opportunity to comment on behalf of its members on the Consultation Paper issued by the Canadian Securities Administrators on the 29 January 2015.

The GFXD was formed in co-operation with the Association for Financial Markets in Europe (AFME), the Securities Industry and Financial Markets Association (SIFMA) and the Asia Securities Industry and Financial Markets Association (ASIFMA). Its members comprise 24 global FX market participants,<sup>1</sup> collectively representing more than 90% of the FX inter-dealer market.<sup>2</sup> Both the

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<sup>1</sup> Bank of America Merrill Lynch, Bank of New York Mellon, Bank of Tokyo Mitsubishi, Barclays Capital, BNP Paribas, Citi, Credit Agricole, Credit Suisse, Deutsche Bank, Goldman Sachs, HSBC, JP Morgan, Lloyds, Mizuho, Morgan Stanley, Nomura, RBC, RBS, Société Générale, Standard Chartered Bank, State Street, UBS, Wells Fargo and Westpac.

<sup>2</sup> According to Euromoney league tables

GFXD and its members are committed to ensuring a robust, open and fair marketplace and welcome the opportunity for continued dialogue with global regulators.

## **Introduction**

The FX market is the world's largest financial market. Effective and efficient exchange of currencies underpins the world's entire financial system. Many of the current legislative and regulatory reforms have had, and will continue to have, a significant impact upon the operation of the global FX market, and the GFXD wishes to emphasise the desire of our members for globally co-ordinated regulation which we believe will be of benefit to both regulators and market participants alike.

The FX market is the basis of the global payments system. The volume of transactions is therefore very high and these transactions are often executed across geographical borders. As reported by the Bank of International Settlements in their Triennial Central Bank Survey: Foreign Exchange Turnover in April 2013<sup>3</sup> over 75% of the FX activity was executed by market participants across 5 global jurisdictions, hence the continued view from the GFXD that regulations should be harmonized at the global level. Cross border markets cannot operate in conflicting regulatory landscapes and the natural outcome, should this be the case, is unwanted fragmentation of what is an already highly automated and transparent FX market. Canada presents a more granular harmonization challenge and we recommend that the CSA prioritises the harmonisation of legislation, both across provinces and at the international level.

Many of the current legislative and regulatory reforms will have a significant impact upon the operation of the global FX market and we feel it is vital that the potential consequences are fully understood and that new regulation improves efficiency and reduces risk, not vice versa. The GFXD welcomes the opportunity to set out its views in response to your consultation paper.

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### **Q1. Is the DTF category appropriately defined? If not, what changes are needed and why?**

We support the submission made by the International Swaps and Derivatives Association, Inc (ISDA).

### **Q2. Is it appropriate to permit a DTF operator a degree of discretion over the execution of transactions? Why or why not? If discretion is permitted, should it be permitted only for trading in products that have not been mandated to trade on a DTF?**

We support the submission made by ISDA.

### **Q3. Is the description of permitted execution methods for a DTF suitable for facilities that currently offer or plan to offer trading in OTC derivatives?**

We acknowledge that the permitted execution methods outlined in the paper are only examples, rather than an exhaustive list. In order to prevent market disruption due to the application of conflicting regulatory obligations in one region versus another, we believe it is important that the final text recognises such challenges.

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<sup>3</sup> <http://www.bis.org/publ/rpfx13fx.pdf>

The FX derivative market is largely OTC, operating on a Request for Quote (RFQ) basis and on a discretionary execution basis, i.e., market participants choose with whom they trade with, rather than being 'directed' by a broker.

#### Request for Quote (RFQ)

In an RFQ system, the quote should be disclosed only to the requesting party, as the responding entities take on risk which would be increased if those quotes were seen by other responding entities and, more importantly, third parties. We believe that the exposure of a liquidity providers position to the market would have the following impacts: i) the provider might be unable to effectively hedge their position; ii) the costs of executing would be increased and these costs would be reflected in wider spreads to the client; and iii) the provider might decide to stop offering quotes in certain instruments should they be unable to effectively manage their subsequent position. It is therefore important that market makers on venues operating an RFQ protocol are not required to disclose pre-trade prices to other market makers (i.e., other price makers).

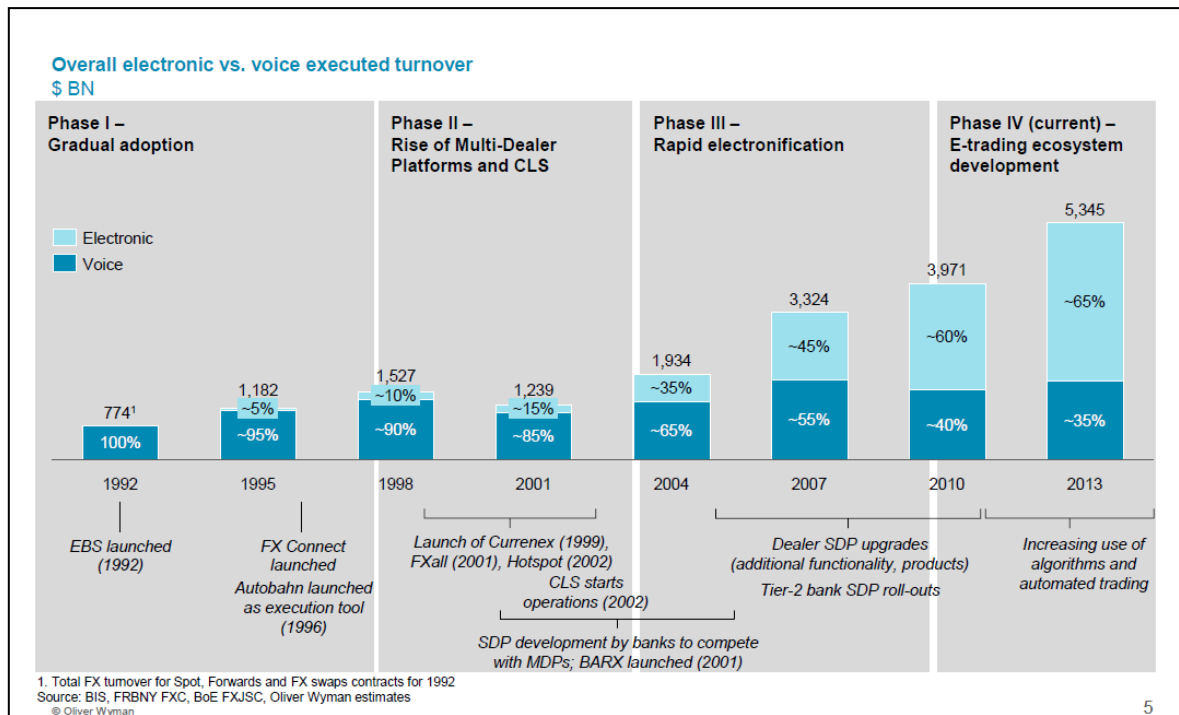
#### Request-for-stream (RFS)

The GFXD does not agree with the definition provided by the CSA. If the firm responds to the client with quotes, which are indicated as such (for a predefined period of time), the system would fall under the request for quote system notation. If the stream provided is indicative, we believe that RFS should not fall under the RFQ trading system notation. This is because the firm is not responding to the client with quotes but indicative prices.

#### Hybrid

We support the inclusion of hybrid system but note that for FX derivatives, the multi-multi venues typically operate though one model or another, either via voice or an electronic platform. However this may not be the case for other derivative instruments. A recent study of the FX market by GFXD and Oliver Wyman showed that the FX market is ~65% electronic and ~35% voice traded, illustrated in Figure 1. We therefore agree with the CSA's inclusion of hybrid systems in the permitted execution methods.

Figure 1: Overall electronic v voice executed turnover in the Global FX market (Oliver Wyman)



**Q4. Please comment on required modes of execution. Should any particular minimum trading functionality be prescribed for DTFs generally?**

We support the submission made by ISDA.

**Q5. Is the proposed regulatory framework for DTFs appropriate?**

We support the submission made by ISDA.

**Q6. Is it appropriate to impose dealer requirements on a DTF where the operator of the DTF exercises discretion in the execution of transactions? (Please explain.) If so, should such a DTF be required to register as a dealer, or should only certain dealer requirements be imposed on the DTF? (Which ones?)**

We support the submission made by ISDA.

**Q7. To address conflicts of interest, should a DTF that exercises discretion in the execution of transactions be required to exercise this functionality in a separate affiliated entity? Why or why not?**

We support the submission made by ISDA.

**Q8. What factors are relevant in defining the proposed best execution duty?**

We support the submission made by ISDA.

**Q9. Is it appropriate to allow a DTF to require clearing of all trades on the DTF that are capable of being cleared?**

We believe that it is not appropriate to allow a DTF to require clearing of all trades on the DTF that are capable of being cleared.

We believe that this would amount to DTFs having the ability to establish a mandatory clearing requirement and we consider that such a determination should be made by the regulators following wider consultation with the market.

FX is a largely OTC market, and whilst parties execute via a platform, the platform itself is never a counterparty to the trade. The parties to the trade manage their risk, which is largely settlement risk<sup>4</sup>, via a Credit Support Annex (CSA). It would therefore be inappropriate for a venue to determine whether a trade should instead be cleared - the choice of whether or not to clear, and through which CCP, should remain with the counterparties to the trade, who carry the risk.

As previously mentioned, the FX market is cross-border and global in nature. Trading obligations and clearing mandates should be globally aligned and we note that deliverable FX forwards and FX swaps, following the 2012 US Treasury exemption<sup>5</sup>, are currently excluded from the definition of “swaps” in the Commodity Exchange Act in order to exclude these transaction types from the application of SEF rules and clearing obligations within the US. In addition to these harmonization challenges, physically settled FX instruments also present other challenges, noticeably the role the CCP plays in ensuring the correct funds are paid to the correct party at the correct time. The GFXD conducted a study<sup>6</sup> to size the liquidity shortfall that represented the minimum, baseline capabilities CCPs must demonstrate for converting funds, same day, into the currencies which its other (non-failing) clearing firms were expecting to receive on that date in satisfaction of the FMI Principles “cover 2” liquidity requirement. The study, which analysed 5 years of FX option trade information of 22 global banks, showed that the gross shortfall amounted to \$161bn (equivalent) per day across 17 currencies.

NDFs have been voluntarily cleared within the FX market for several years, but cleared volumes are believed to be 0.5-4% of the FX NDF market (itself 3-4% of the global FX market). ESMA summarised in their recent response<sup>7</sup> to their FX NDF Clearing Consultation, that they did not support the extension of a mandatory clearing obligation of FX NDFs in Europe due to the lack of global harmonization of clearing mandates, the lack of client clearing solutions and the limited number of CCPs offering FX NDF clearing.

**Q10. Is it appropriate to allow a DTF to require transactions executed on its facility to be cleared through a particular clearing agency and/or reported to a particular trade repository?**

We support the submission made by ISDA.

**Q11. Is it appropriate for a DTF that exercises discretion in trade execution to be permitted to limit access to its facility? If so, on what grounds should it be permissible?**

We support the submission made by ISDA.

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<sup>4</sup> <http://www.bis.org/publ/bcbs229.pdf>

<sup>5</sup> US Exemption at <http://www.treasury.gov/press-center/press-releases/Documents/11-16-2012%20FX%20Swaps%20Determination%20pdf.pdf>; GFXD views at <http://gfma.org/correspondence/item.aspx?id=479>

<sup>6</sup> <http://gfma.org/Initiatives/Foreign-Exchange-%28FX%29/FX-Options-Clearing/>

<sup>7</sup> [http://www.esma.europa.eu/system/files/2015-esma-234\\_-\\_feedback\\_statement\\_on\\_the\\_clearing\\_obligation\\_of\\_non\\_deliverable\\_forward.pdf](http://www.esma.europa.eu/system/files/2015-esma-234_-_feedback_statement_on_the_clearing_obligation_of_non_deliverable_forward.pdf)

**Q12. Are the proposed organizational and governance requirements for DTFs appropriate? Are there additional organizational and governance requirements that the Committee should consider?**

We support the submission made by ISDA.

**Q13. Is it appropriate that a DTF that does not exercise execution discretion be permitted to perform its regulatory and surveillance functions itself, or should it be required in all cases to engage a third-party regulation services provider for this purpose? Please explain.**

We support the submission made by ISDA.

**Q14. Do you agree with the proposal to prohibit DTF operators from entering into trades on their platforms as principals, on their own accounts? Please explain.**

We support the submission made by ISDA.

**Q15. How should the sufficiency of a DTF's financial resources be evaluated? Please comment on the methodology and frequency of the calculation.**

We support the submission made by ISDA.

**Q16. Should pre-trade transparency requirements apply to OTC derivatives that trade on DTFs but that have not been mandated to be traded on DTFs? If yes, what requirements should apply, and should any exemptions be provided?**

We do not believe that pre-trade transparency requirements should apply to OTC derivatives which trade on DTFs but have not been mandated to be traded on DTFs. Only instruments subject to the trading mandate are sufficiently liquid so that pre-trade transparency requirements would not cause the unwarranted exposure of a liquidity provider's position to the market.

Furthermore, we believe that the trading mandate itself should only be considered for instruments already subject to a clearing mandate and are thus by default deemed liquid.

The FX market is largely OTC and is ~65% electronically traded, with ~30% of volume conducted on multi-dealer platforms<sup>8</sup>. This already provides the market a high degree of transparency, even for instruments that are not subject to a trading mandate. Requiring additional transparency for instruments which are voluntarily traded on venue would be detrimental, as these would be instruments that have not been subject to a liquidity assessment. For instance, the inclusion of footnote 88 within the CFTC's SEF trading rules (17 CFR part 37) requires permitted (i.e., non-mandated) instruments, such as FX NDFs, that are traded on a multi-multi basis in the US (by a US person) to be traded on SEF and therefore required to comply with the SEF rules. Due to well published challenges with the legal certainty of transactions executed on SEF, a large percentage of the market has moved trading away from the SEF environment and executed away from the US, as reported by ISDA<sup>9</sup>. It should also be noted that the CFTC has issued no-action-relief (14-108)<sup>10</sup> to help the market work through these challenges.

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<sup>8</sup> According to analysis conducted by Oliver Wyman

<sup>9</sup> <http://www2.isda.org/functional-areas/research/research-notes/> (Revisiting Cross-Border Fragmentation of Global OTC Derivatives: Mid-year 2014 Update)

<sup>10</sup> <http://www.cftc.gov/ucm/groups/public/@lrllettergeneral/documents/letter/14-108.pdf>

Additionally, in a market such as the Canadian FX market, with relatively few participants and comparatively low trading volumes in relation to the global market, greater thought must be given to the effect of pre-trade transparency requirements, as the impact of publication will be much greater. For example, in an RFQ system where multiple quotes were required to be shown, it is highly likely that the number of quotes published could equate to a number equal to a significant percentage of the market makers in the Canadian markets. As such, the calibration of what is required to be published needs to be carefully considered.

We would therefore recommend that pre-trade transparency is restricted to derivatives that are subject to the trading mandate only, consideration for which should in turn be limited to those derivatives subject to a clearing mandate.

Finally, it is critical that any trading mandates have suitable mechanisms built into them to allow for the suspension of obligations in times of market stress. This suspension of requirements would protect market liquidity and stability until such a time as normal market levels resume.

**Q17. Are the proposed post-trade transparency requirements (involving real-time trade reporting as well as public reporting of certain daily data) appropriate for DTFs?**

As we have previously mentioned, the FX market is global in nature and transacts across borders. As such, any efforts to implement regulatory transparency obligations needs to be considered with other jurisdictions in mind. It would not be appropriate for information to be made publically available in one jurisdiction before another. This would allow market sensitive information to be determined and will impact the ability of market participants to hedge positions.

For instance, the GFXD supports the CFTCs use of block-trade rounding/notional capping in order to prevent illiquid positions being published, thus aiding market makers in managing their risks, yet we note that such an approach has not been leveraged in Europe under MiFID. Given that MiFID goes live in January 2017, we are not yet able to assess the market impacts of such regulatory discrepancies in the publication of trade data and respectfully suggest that the CSA is be sensitive to the specific characteristics of the FX market during finalisation of transparency rules.

We are also concerned that the CSA does not appear to consider in this consultation the post trade transparency obligations under rules 91-507 and 96-101. We suggest that any DTF transparency obligations should not duplicate the obligations from other Canadian regulations.

**Q18. What is the preferred method for real-time public reporting of transactions executed on a DTF (i.e., directly by a DTF, via trade repositories, or some other method)? What are the advantages and disadvantages of the proposed options?**

We support the submission made by ISDA.

**Q19. When should deferred publication of trade information be permitted? Are there circumstances other than block trades?**

The GFXD believes that there are circumstances in which deferred publication of trade information should be permitted. In addition to large/block trades, trades in illiquid instruments should also be granted a deferral.

An effective deferral regime addresses the risks of pre and post trade transparency, ensuring that market makers facilitating transactions by committing capital have sufficient time to hedge and

unwind their risk. For instance, in the Mergers and Acquisitions (M&A) world, information relating to deal-contingent trades could be made public before they are executed. These transactions are usually large in size and would inform the markets of the potential or conclusion of an M&A trade, allowing the market to trade ahead of the conclusion of the deal.

The length of deferral period may depend on the nature of the trade. For example, trades that are both large and illiquid should be granted a longer publication deferral. In the recent submission to ESMA in response to the December 2014 MiFID consultation paper, both AFME and ISDA recommended that there should be a 12 week deferral for those trades which would expose market makers to undue risk.

Whatever determination is made, the size and liquidity thresholds and length of deferrals should be reasonable, reviewed annually and applied consistently across provinces to prevent exposure of positions or regulatory arbitrage.

**Q20. Assuming that deferred publication of trade information should be permitted for block trades, what criteria should be considered when determining the minimum block trade threshold size to permit deferred trade disclosure?**

We support the submission made by ISDA.

**Q21. What market information should a DTF be required to provide to the general public without charge, and on what schedule? Please be as specific as possible as to data elements, granularity, and schedule (compare with the US CFTC rules in 17 CFR 16.01).**

In order to prevent regulatory arbitrage and to ensure that the public has access to globally consistent data, we would encourage the CSA to consider the approaches of the US and Europe and align the reportable data fields and schedules where possible.

We are concerned by the inclusion of the phrase “although not required to, a DTF would not be prohibited from disseminating real-time data”. Consistency of reporting across the market is highly important and the publication of data should not be determined by individual institutions, especially those with commercial objectives.

We would also encourage the CSA to ensure that any requirements for public dissemination of information under trading mandate rules to not contradict or duplicate similar obligations already in force under trade reporting.

**Q22. In addition to reporting trade information to a trade repository, should a DTF be required to disseminate trade information directly to all its participants, or only to the counterparties to the trade? Should there be a minimum amount of post-trade information that is disseminated to all participants, containing less detail than the information provided to the counterparties? Please specify.**

We support the submission made by ISDA.

**Q23. Are the proposed criteria for determining whether a derivative will be subject to a DTF-trading mandate appropriate? Should other criteria be considered?**

Whilst we generally support the criteria proposed, we are finding that it is a challenge to implement these criteria in practice. Specifically, our experiences with the MiFID consultations in Europe demonstrate that is a very complex exercise to define liquidity and more specifically measure it.



Liquidity has different meanings for different market participants, typically determined on their ability to make markets. It is a subjective term.

We suggest that the CSA leverages its international network and the experiences of peers in other global jurisdictions in order to help frame a liquidity proposal on an instrument by instrument basis.

We believe that the experiences in Europe would provide a helpful guide especially given that some of the measures proposed, such as the number of market participants, are incredibly difficult to quantify. We also suggest that any liquidity definitions need to be flexible enough to accommodate real-time events that impact the liquidity of the market (e.g., geo-political events) and must include a process for suspension of transparency obligations in the event of market disruption. This would be particularly important to the Canadian market, due to its smaller size relative to other jurisdictions – it would be challenging for market makers to meet their obligations during a period of market stress.

**Q24. Are there existing OTC derivatives that should be considered suitable for mandatory trading on a DTF? Are there classes of OTC derivatives for which a mandatory trading obligation would be detrimental to market participants?**

We do not believe that there are currently any classes of FX OTC derivatives which should be considered suitable for mandatory trading on a DTF, and believe that any trading obligation should be assessed on an instrument by instrument basis. Currently there are no mandatory trading obligations applied to FX instruments in any other global jurisdiction.

We support the view that a trading obligation should only apply to those instruments that are suitable for the mandatory clearing obligation, and as such would like to draw reference to our response to CSA paper 91-406 (June 2012), as there are a number of characteristics which still apply and set the FX market apart in terms of the effects of mandatory clearing:

1. Mandatory clearing is predominately concerned with reducing market risk. For FX, the predominant risk is settlement risk. Following extensive study of settlement risk by the central banks as a source of systemic risk for the FX market and therefore the global financial markets, the FX market went to considerable lengths to address this risk, ultimately leading to the creation of CLS Bank (CLS) in 2002. CLS' settlement system today eliminates virtually all settlement risk to its participants. Additionally, CLS' activities are subject to a cooperative oversight protocol arrangement among 22 central banks whose currencies are settled.
2. Canadian market regulators should take into account the systemic relevance of the relevant market in order to help ensure that the application of a clearing obligation would not result in undue risk being assumed by the market and overall financial system. Size should be measured not only in terms of volume, but also values. Unique characteristics of the derivative product, e.g. the physically delivery aspect to FX forwards, FX swaps and FX options, must also be taken into consideration.
  - FX is at the heart of all international commerce. Corporations and investors regularly participate in the market for real operational needs: to reduce risk by hedging currency exposures; to convert their returns from international investments into domestic currencies; and to make cross-border investments and raise finance outside home markets. The FX market, which is the world's largest financial market, is a central component of the global payment system. It also underpins other financial markets and the global economy generally. The Bank for International Settlements estimated that

average daily market turnover in FX increased to \$5.3 trillion in April 2013, up from \$4trillion in April 2010.<sup>11</sup>

- FX markets are different from other derivative markets. The majority of FX trades are simple exchanges of currency. There are no contingent outcomes for FX forwards and swaps (cash flows are known at the outset of the trade) and they are overwhelmingly short-term in nature. For example, latest analysis conducted by Oliver Wyman of the BIS 2010 survey and the FXJSC/FXC figures (both collected in April 2010), estimates the following global maturity profile for FX forward and swap trades:
  - Up to 7 days maturity = 68.0% of daily traded volumes;
  - 7 days – 1 month = 13.3%; and
  - 1 month – 6 month = 16.2%

This evidences a global FX forwards and swaps daily traded market total of 81.3% under 1 month maturity and 97.5% under 6 months, with 1.5% maturity between 6 months and 1 year and only 1% over 1 year. And unlike other OTC derivatives which are typically settled on a net, cash-settled basis, FX forwards and FX swaps are typically physically settled by delivery of the underlying currency.

- FX faces different and specific risks when considering counterparty credit risk. In FX forwards and swaps market, the main counterparty risk is settlement risk, not mark-to-market risk (settlement risk is the risk that one counterparty does not deliver their side of the currency exchange while the other counterparty has delivered their side). Unlike most derivatives markets where trades are settled financially, the FX market is currently predominantly physical, i.e., trades settle via exchange of currencies. For FX instruments with maturity less than 6 months: 94% of max loss exposure is settlement risk; mark-to-market risk is only a residual risk (6%).<sup>12</sup>
- CCPs are designed to mitigate “mark-to-market” risk – not settlement risk. In FX markets, the residual mark-to market risk is today mitigated through credit support annexes (CSAs).
- Mandatory clearing in FX markets could have unintended consequences whilst addressing a disproportionately low residual credit risk exposure. The rules of the Canadian market regulators should specifically recognize that in some classes of OTC derivatives, such as FX, the CCP clearing mandate/solution may not be the optimal solution for dealing with the predominant risk for that market, such as settlement risk. Key unintended consequences of mandating clearing for FX forwards and FX swaps include potentially undermining the efforts that have been made in addressing settlement risk to date; creating a single point of failure where none exists today; and increasing costs and risk for corporate and buy-side end-users of FX.

In addition, it is worth noting that the US Treasury has issued a determination to exempt FX forwards and swaps from the definition of a ‘swap’<sup>13</sup>. The determination recognises the different

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<sup>11</sup> <http://www.bis.org/publ/rpfx13fx.pdf>

<sup>12</sup> According to analysis conducted by Oliver Wyman

<sup>13</sup> US Exemption at [http://www.treasury.gov/press-center/press-releases/Documents/11-16-](http://www.treasury.gov/press-center/press-releases/Documents/11-16-2012%20FX%20Swaps%20Determination%20pdf.pdf)

2012%20FX%20Swaps%20Determination%20pdf.pdf; GFXD views at <http://gfma.org/correspondence/item.aspx?id=479>

characteristics of FX instruments and the way the market functions at present. We support this determination, and urge the CSA to implement a similar determination in the interests of global regulatory harmonisation.

**Q25. Are there any situations in which a product that has been mandated to trade exclusively on a DTF should be permitted to trade other than on a DTF? Should any category of market participants be exempt from a trading mandate?**

We believe that there are certain situations which require an exemption from a trading mandate and note that such examples should be considered by Canadian authorities in order to promote global harmonization of regulatory obligations.

For example, these could include, but are not limited to:

1. Intra-group transactions;
2. Transactions involving a non-financial counterparty whose positions do not meet a specified clearing threshold – i.e., relating to those transactions for instance defined under EMIR Article 10 “which are not objectively measurable as reducing risks directly related to the commercial activity or treasury financing of the non-financial counterparty or of that group”;
3. Illiquid trades in instruments that have been determined as liquid, such as ‘block trades’; and
4. Package transactions.

**Q26. Should there be a formal role for DTFs in initiating the process to specify that a class of OTC derivatives is mandated to trade exclusively on a DTF, comparable to the role of SEFs in the MAT process described on page 19?**

We do not believe that a DTF should have sole discretion as to determining what is appropriate to be mandated to be traded on a DTF. We believe that it may be appropriate for a DTF to put forward a class of OTC derivatives for consideration by the regulator for a trading mandate. However, the ultimate decision should be made by the regulators following wider consultation with the market and not based on the commercial considerations of a DTF.

As the FX market is the basis of the global payments system, the volumes of transactions is very high, and are often executed across geographical borders. Allowing DTFs to specify that a class of OTC derivatives should be mandated to trade exclusively on a DTF would result in a lack of global harmonisation in mandatory trading obligations. This in turn could lead to trading in these instruments moving away from Canadian markets. For instance, the inclusion of footnote 88 within the CFTC’s SEF trading rules (17 CFR part 37), required permitted instruments (e.g., FX NDF) that are traded on a multi-multi basis in the US (by a US person) to be traded on SEF. Due to well published challenges with the legal certainty of transactions executed on SEF, large percentages of the market have moved trading away from the SEF environment and executed away from the US.

**Q27. What pre-trade transparency requirements are appropriate for OTC derivatives that have been mandated to be traded on a DTF? In particular, what precise pre-trade information should a DTF be required to publish for OTC derivatives that are subject to a DTF-trading mandate? Please be specific in terms of the execution method (e.g., order book, RFQ, etc.).**

FX derivatives are largely traded using an RFQ model and we believe that this would be the primary execution model for those instruments included in the mandatory trading obligation. We too share

the concerns noted by the CSA in the consultation paper with respect to the content of pre-trade transparency obligations for instruments executed via RFQ.

Whilst a solution offered in the consultation leans towards a process where the RFQ is sent to a number of dealers, we would be concerned with the impact of this given the comparatively small number of market makers in the Canadian FX markets. For example, if multiple quotes were required to be shown, this might equate to information that would reveal the positions of a high proportion of Canadian market makers and as previously discussed may lead to a reduction in the number of participants wanting to make markets in certain instruments, reducing liquidity.

An alternative proposal may be to publish the average bids and offers for each RFQ and attaching a volume band – this was the final proposal included in our recent response to ESMA on their December 2014 MiFID consultation. Or, as mentioned with reference to the US SEF rules, RFQ and the existence of an order-book may also provide the required transparency.

**Q28. For the purpose of exempting large orders and quotes from pre-trade transparency requirements or permitting modified disclosure, how should an appropriate size threshold be determined?**

We support the submission made by ISDA.

**Q29. Is it appropriate to limit trading in OTC derivatives that have been mandated to be traded on a DTF to specific permitted execution methods, e.g., an order book, or a request-for-quote system offered in conjunction with an order book? Why or why not? If so, which modes of execution should be permitted for products that are mandated to trade on a DTF? Can an appropriate level of pre-trade transparency be achieved with other methods of execution? What other factors should be considered?**

We support the submission made by ISDA.

**Q30. What additional requirements should apply to DTFs with respect to trading in products that have been mandated to trade on a DTF?**

We support the submission made by ISDA.

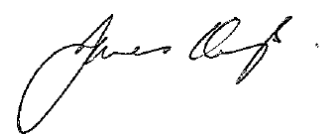
**Q31. Please describe any specific characteristics of the Canadian OTC derivatives markets that the Committee should consider, which might justify a divergence between Canadian rules and those in effect in the US and the EU. Please consider transparency requirements, the trading mandate, and anything else you think relevant. Please refer to specific consequences of the characteristics you identify.**

We do not believe that there are specific Canadian market characteristics that would require a divergence between the US and European regulatory obligations.

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We appreciate the opportunity to share our views on this consultation paper issued by Canadian Securities Administrators. Please do not hesitate to contact Fiona McKane on +44 207 743 9317, email [fmckane@gfma.org](mailto:fmckane@gfma.org) or Andrew Harvey on +44 207 743 9312, email [aharvey@gfma.org](mailto:aharvey@gfma.org) should you wish to discuss any of the above.

Yours sincerely,

A handwritten signature in black ink, appearing to read "James Kemp". The signature is fluid and cursive, with a large initial "J" and a distinct "K".

James Kemp  
Managing Director  
Global Foreign Exchange Division, GFMA