17 September 2018

BC Securities Commission

To whom it may concern,

Please accept these comments with regards to the proposed OTC derivatives National Instruments 93-101 and 93-102.

**NI 93-101 Derivatives: Business Conduct**

Part 4 Division 1, 20. (1) Daily reporting

On each business day, a derivatives dealer must make available to a derivatives party a valuation for each derivative…

Our corporate FX clients deliver on their forward and option hedges. They rarely close them out. They only buy USD forward for example because they have USD accounts payable in the coming months. For instance, they will book a 3-month forward buying USD at 1.3150 today and they may start pre-delivering against that contract at 1.3150 in a few days or weeks. By the value date of the contract it will be fully drawn down. The marked-to-market (MTM) value of the forward is of no significance to the client. They have locked in a rate (1.3150) to protect the cost of their USD payables and they don't care what the MTM value of that forward is. They will deliver against it rather than selling it back to the market.

Same goes for options, whether vanilla calls and puts or structured zero-cash options. What matters to clients is their protection rate and their participation rate. These are the rates they may or may have to deliver or take delivery of USD at. The MTM value of the contract has no meaning in our deliverable FX business.

The MTM value of a FX forward or option would only be of interest to a speculator, not a commercial hedger who is actually going to deliver against the contract. Our clients use forwards and options to reduce FX rate uncertainty, not to beat the market. We encourage them to hedge systematically on a rolling 12-month basis, for example, and not try to time the market. Whether the hedge is in-the-money or out-of-the money once it is booked is irrelevant and could mislead our clients if we report it to them on a daily basis. What's important to FX hedging clients is the actual rates they'll be delivering or receiving USD at over their hedging horizon.

**NI 93-102 Derivatives: Registration**

Page 3281 Part 5 Division 1 18 (2) (b) (i)

"the individual has worked at a registered securities firm, at a derivatives dealer…"

Does "registered" apply to the derivatives dealer or just securities firm? Assume it does not apply to derivatives dealer since a registered derivatives dealer has not existed in Canada to date.
An individual who meets the requirements in 18 (2) (b) and has been employed at a non-registered derivatives dealer for 5 years, including 36 months in a compliance capacity, would qualify as a chief compliance officer?

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Same applies to chief risk officer qualifications. We have lots of senior people that have worked their entire career in at non-registered FX firms offering derivatives. Is that experience being recognized for registration purposes?

<u>Page 3282 Part 5 Division 1 18 (4) (b)</u>

"the individual has passed the Futures Licensing Course Exam and the National Commodities Futures Exam"

As a non-bank FX dealer, we only offer OTC FX forwards and options. We do not sell exchange listed futures. Since starting EncoreFX in 2015, we have required all our dealers to pass the CSI Derivatives Fundamentals and Options Licensing course (DFOL). We looked at all the courses available through CSI and determined that the DFOL was the best fit for our OTC FX business. The options licensing course is considerably more relevant to our business than the futures licensing course. We utilize options a lot in client hedging strategies, never futures.

<u>Page 3282 Part 5 Division 1 18 (6) (a)</u>

"the individual has earned a CFA Charter and has gained 12 months of relevant investment management experience, including experience relating to derivatives…"

We have CFA charter holders who have worked their entire career in the FX risk management business offering hedging advice to corporate clients. They have never worked in the investment industry but have years of FX hedging experience. Will that experience count under 18 (6) (a) or do they have to have investment management experience?

<u>Page 3282 Part 5 Division 1 18 (6) (b) (i)</u>

We have FX hedging experts on staff with years of experience helping businesses manage their FX risks. For dealers wanting to upgrade their credentials beyond the DFOL, but the CFA program is not a viable option, we encourage them to attain the CSI Certificate in Derivatives Market Strategies. The company pays for this program. We believe this program is a much better fit for our risk management oriented dealers than the investment industry CIM. Hedging and risk management are similar to the investment industry in some respects but it is really a very different vocation. Our dealers are trained to help business clients reduce market risk through prudent hedging strategies. That requires a different knowledge set and expertise than investment management. Many of our dealers are well on their way to attaining the Certificate in Derivatives Market Strategies. It should be recognized for purposes of qualifying as a derivatives <u>adviser</u> along with the CIM.

Sincerely,

ENCOREFX INC.
Paul Lennox, CFA
President