

Welcome

Welcome to the first issue of our Gmarkets Newsletter. The purpose of this newsletter is to provide information to our customers about the company, selected capital markets topics, and our services.

We recently changed our company name from CanX to Gmarkets. We thought it was a more appropriate name as we expand our services globally. The “G” represents Global, and “markets” represents the Capital Markets. So far, your responses have been extremely positive, and we appreciate your best wishes.

The Company continues to focus on the capital markets:

- Money Markets
- Fixed Income
- Foreign Exchange
- Swaps and OTC Derivatives
- Rate Fixings

It’s been almost a year since the company was founded. After nine intense months of design, development and testing, we officially launched the service in August. We are proud of what we have done, and believe we have built an excellent capital markets service. Of course, our customers are the ultimate jury.

Thank you to the hundreds of users who have registered to try the service. Based on your feedback and comments, we have made significant progress in enhancing the service over the course of its evolution.

Again, thank you for your time and interest. We hope to serve you well.

Robin Hanlon
CEO

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Inter-Dealer Brokers

The capital markets are primarily over-the-counter markets. Institutional investors buy and sell securities through market makers, that is, their banks and dealers. These financial intermediaries must allocate resources, commit capital and manage risks to provide liquidity to their institutional customers, in a highly competitive environment.

As a service to their customers, many dealers provide liquidity across many securities and markets. At anytime, they are willing to post a bid to buy or an offer to sell, whether they have the security in inventory or not. If they do not have it in inventory, they must buy or borrow it from other dealers. They do this by using the services of an inter-dealer broker, also called IDB’s.

Benefit to Dealers

The role of an inter-dealer broker is to facilitate trading among the dealers, so that they may in-turn provide liquidity to their institutional customers at the lowest possible cost. Without a strong inter-dealer market, dealers would need to commit more capital and assume more risks to fund additional inventory. This would increase the overall cost to institutional investors.

As an analogy, your local car dealer participates in the inter-dealer market.

Basically, the car dealer manages a limited amount of inventory in the showroom, typically one or two cars of each model, with various options, and color. If a customer wants different options, a larger engine, a different interior finish or color that is not in the dealer’s inventory, the dealer would try to find what the customer wants from the inventory of other dealers in the region. In essence, car dealers use the inventory pool of other dealers to fulfill the many different types of customer requests and requirements.

If there was no inter-dealer market, the local car dealer would need to finance hundreds and hundreds of models, options, interior finishes and colors to satisfy the many permutations of what customers may be interested in. This would be prohibitively expensive for the car dealer to support and finance, and would make it much more costly for customers.

Managing Risks

In addition to providing access to inventory from other dealers, the IDB market also provides dealers an efficient means to manage risk.

Market makers in fixed income securities are constantly exposed to interest rate risk. As they provide liquidity to customers, their interest rate exposure fluctuates depending on their security positions. To hedge against their interest rate exposure, traders use the inter-dealer market to purchase or sell securities to counter-balance the risks of their existing positions.

By better managing their inventory and risks, dealers are able to offer more competitive pricing to their customers..

How IDB's Work?

The customers of Inter-dealer Brokers are banks and dealers (market makers). The trading desks of these firms have direct phone lines and specialized broker screens hardwired from their inter-dealer brokers over high speed, redundant networks.

Broker Screens

The broker screens display the trading activity among the dealers as they trade among each other. These screens are typically organized as pages, sorted by securities within asset classes. For each security, there is a short description, bid or offer, trade size and an analytic.

The following is an example of a security within a bond page:

450_0615 97.152/162 10x5 4.570/4.523

This is a 10 year Canadian Treasury with a coupon of 4.50% maturing on June, 2015.

The current bid price is 97.152, and the current offer price is 97.162. There is 10 million being bid versus 5 million being offered. For bonds, the bid and offer yields are also displayed, which is 4.570 and 4.523.

Buying a Security

When a trader at a dealer is interested in buying a security, they would call their broker directly. There are two ways they can buy:

- (1) Post a new bid to buy, or
- (2) Lift (or take) an existing offer.

Posting a Bid

For illustrative purposes, let's assume our trader is interested in buying 2 million 10 year bonds in the market depicted in the screen segment at the left, with the current bid/offer at 97.152/162.

- (1) The trader may tell the broker to post a bid of 2 million at 97.152. Since this bid is at the same price as the current best bid, the trader would join the bid. The bid size on the screen would show a size of 12 (the existing 10 million plus the trader's additional 2 million).
- (2) Alternatively, the trader may decide to be a more aggressive bidder and decide to post a slightly higher bid, let's say at 97.155. In this situation, a new bid price and size will be displayed on the screen, that is 2 million at 97.155.

The broker posts the bid into the system anonymously, and it is immediately displayed to all traders looking at the page. The new data flashes and blinks for a few seconds to alert all other traders viewing the broker pages.

Lifting an Offer

Instead of posting a bid, the trader can buy 2 million immediately by lifting (also called taking) an existing offer.

In the example, there is \$5 million being offered at a price of 97.162. If the trader acts on it, the broker will execute the order and confirm the trade over the phone. The broker will immediately take down 2 million from the 5, leaving 3 million at 97.162 left. The trade will flash on the screen to alert all other traders that 2 million has been done, and the remaining 3million will be on display.

Better Price Versus No Execution Risk

There are benefits to either Posting a Bid or Lifting an Offer.

When Posting a Bid, the trader may potentially buy at a better price. But he or she must wait for another trader to hit the bid. That is, the trader must wait for someone to act on the bid – which exposes him to execution risk. What if nobody wants to sell at the posted price?

When Lifting an Offer, the trader immediately buys the security, with no execution risk. But, he or she will typically pay a little more (buying on the offer side, as opposed to on the bid side).

** Note: if there is no existing offer, the trader who wants to buy must post a bid. Also, if the trader is interested in buying more than what is available, they may purchase what is outstanding, and also post a bid to try to buy the rest.

IDB Screens are Live Markets

All bids and offers on broker screens are "Live Markets." That is, all bids and offers are firm executable prices, with capital committed to them. The trader who posts the bid or offer "must" execute the trade if another trader acts on it. There is NO negotiation.

If the trader is no longer interested in posting the bid or offer, they can cancel the order. If cancelled, the broker immediately takes it off the screens.

IDB screens show the actual trading activity among the major banks and dealers as they trade among themselves. And consequently, IDB pages are highly sought after by market participants because it provides a live view into collective wisdom of the Street.

Freedom Brokerage International

...increased transparency in the Canadian Fixed Income Markets...

Freedom is the largest Inter-dealer Broker in Canadian Fixed Income Securities.

Their customers are the largest banks and dealers in Canada. Freedom facilitates the inter-dealer trading among their customers.

They currently broker:

- Canadian Bills
- Canadian Treasuries
- Provincials
- Corporates
- Repos
- Treasury Rolls
- Swaps

Gmarkets is currently the only third-party distributor of their content. To access their benchmarks, add a page to your desktop and enter:

FREEDOM/BM

**“Freedom –
Now available only on
Gmarkets”**

CanPX

CanPX is a joint venture of IDA (Investment Dealers Association of Canada) member firms represented on the IDA Capital Markets Committee and the Primary Dealer Money Market Committee, along with certain inter-dealer brokers operating in the Canadian debt markets.

Its purpose is to provide more transparency in the Canadian debt markets. CanPX commingles the trading activity of the largest inter-dealer brokers in Canada. The participating brokers include Freedom, Shorcan and Tullett Prebon.

For the first time, market participants have access to the combined trading activity of the largest inter-dealer brokers in the Canadian debt markets. The popularity of CanPX has made it the benchmark Treasury yield curve for Canada.

Improved transparency has offered dealers and institutional investors a real-time reference point to begin negotiating a trade between buyers and sellers of debt securities.

CanPX has recently launched CanPX Corporates, which reports the trading activity of Corporate bonds in Canada.

Both CanPX and CanPX corporates are available on Gmarkets.



Tullett Prebon

Tullett Prebon is one of the largest global inter-dealer brokers.

Their IDB business covers five major product groups: Fixed Income Securities and their derivatives, Interest Rate Derivatives, Treasury Products, Equities and Energy.

They have principal offices in London, New York/New Jersey, Hong Kong, Singapore and Tokyo, with other offices in Frankfurt, Paris, Luxembourg, Sydney, Toronto, Warsaw and Zurich.

Their broad coverage of the international markets has made them a key content source for capital market participants globally.

Gmarkets distributes content from their popular SwapMarker, TreasuryMarker, MoneyMarker and MortgageMarker products.

Improved Navigation with F12

Gmarkets has improved its navigation on its Pilot service. We have added an easy to use navigation object to the service to find content on the network. Just press F12 on any of the Pilot windows, to bring up the navigation.

The navigation is organized (1) by markets, and (2) by content sources. Just click on the content you want, and Pilot will display the selected content in a window.

For more information, please contact Client Services at clientservices@gmks.com.
