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BNP Paribas Global Markets: Spot Foreign Exchange Trading Practices

This document sets out the way in which the Global FX Business of BNPP's Global Markets Division ('the FX Business') undertakes Spot Foreign Exchange ("FX") trading activity. This document supplements any other disclosure or agreement that the FX Business may provide to or agree with its Clients and is subject to change.

Trading Capacity

The FX Business acts in a principal capacity when transacting with Clients, and as such:

- The FX Business acts on its own behalf as a counterparty entering into arm's length transactions;
- The FX Business does not act as agent, fiduciary, financial advisor or in any similar capacity on behalf of a Client; and,
- The FX Business will take on one or more risks in connection with the transaction, including market and credit risk.

The FX Business also trades to manage its own inventory, which may occur concurrently with trades with Clients. This inventory management can have an impact on the prices we offer Clients and the availability of liquidity.

In limited instances, the FX Business will act as "riskless principal", where the FX Business is not exposed to market risk but still has other risks, e.g. credit risk when transacting with another market participant. In circumstances where the FX Business provides liquidity solely as riskless principal a further disclosure will be provided to Clients with which the FX Business engages in that capacity.

Since the FX Business engages in many activities across different regions and business lines, actual or perceived conflicts of interest may arise. Where conflicts of interest have been identified, the FX Business will manage them in line with applied policies.

Market Making

The FX Business acts in a principal capacity when acting as a market maker. Market making involves a person or firm routinely standing ready to enter into transactions for their own account at prices determined by them. When an FX transaction takes place between the Client (or other Market Participant) and the FX business, this results in the instantaneous transfer of market risk between the parties. Market making activities may include:

- Making markets to Clients and other Market Participants by voice or through application programming interfaces (APIs), single and multi-dealer platforms and exchanges;
- Managing inventory; and
- Risk management

Mark up

The FX Business will provide an 'all-in' price or spread to Clients when acting in a principal capacity. This price or spread may be inclusive of any mark-up, costs or fees associated with the transaction. Factors affecting the sales margin or "mark-up" include costs, resources, the size and nature of the transaction, and the counterparty. Any exceptions will be expressly agreed in writing with the Client.

Order Management

In addition to market making, the FX Business will also accept and manage Client orders. An Order is where a Client places a firm instruction to buy or sell a financial instrument with specific details around size, price, quantity, level or direction (including at market) as well as any known timing constraints such that no further action is required to establish the Client's obligation to execute that trade with BNPP.

Standard Orders (non-fixing orders e.g. stop loss, take profit, at best)

Clients leaving orders with BNPP may have their orders handled either electronically or manually.

Standard orders that are subject to automated risk management are executed by the Automated Client Execution ("ACE") desk on a riskless principal basis. The ACE desk is segregated from the market making desk both physically and from a reporting line perspective. Standard orders executed by the ACE Desk may also be subject to a pre-disclosed fee.

Standard orders that are currently not subject to automated risk management are executed on a principal basis.

Discretionary Orders:

Clients have the ability to leave orders whereby some of the details of the order execution are left to the discretion of a trader. These orders will be handled by a voice trader acting in a principal capacity. Once the automated ACE offering is fully in place, Clients will only be able to leave discretionary orders above specific thresholds.

Algorithmic Execution:

The FX Business offers Clients access to algorithmic trading strategies for executing FX Spot orders whereby the algorithmic trading strategies are able to execute using external liquidity as well as BNPP's internal liquidity. These orders are executed by the ACE desk and are subject to a pre-disclosed fee which is built into the final exchange rate at which the transaction is confirmed. The orders are executed on a riskless principal basis.

Fixing Orders

All Fixing Orders are executed on a principal basis (as the FX Business has market risk versus the fixing rate) and are subject to a pre-disclosed fee. Fixing orders can be either executed on an automated or manual basis.

Automated:

Fixing orders that are subject to automated risk management are managed by the ACE desk.

Manual:

In situations where automation is not possible or has not been completed, these trades will be executed manually.

Clients should be aware that the FX Business may be active in the market for risk management purposes close to order trigger levels. This activity may impact the reference price and result in orders being triggered.

Order Prioritisation and Execution

With the exception of fixing orders that are aggregated, all other orders are accepted and worked in the order in which they are received by an execution channel (i.e., voice or electronic). This means that two orders in the same direction and at the same level will be worked on a first come first served basis. This also means that an order received for voice execution may be executed after a similar order that was received via an electronic channel, even if the electronic order is received after the voice order due to the speed of straight through processing.

Whenever possible, the time-stamping of orders is applied when the order is accepted. However, consistent with market practice, orders that are amended or cancelled and resubmitted will be re-prioritised at the time of the amendment or resubmission.

There are various factors that may affect how orders are executed, including, but not limited to:

- Existing inventory when acting as principal;
- The prevailing market liquidity and market conditions; and,
- Other Client orders.

Given the OTC nature of the market, the fact that the level at which an order has been left has traded in the market is no guarantee that the order will have been filled.

As principal, the FX Business attempts to execute an order to make an appropriate return on the transaction if possible, taking into account the FX Business's position, including its inventory strategy and overall risk strategy. The FX Business will use its professional judgment based on available market information to determine whether a limit for a limit order has been reached. Clients may receive a partial fill of an order absent explicit instruction otherwise.

Pre-Hedging and Risk Management

Pre-hedging refers to the management of risks associated with one or more anticipated Client requests to trade, in order to benefit Clients in connection with such requests and any resulting transactions. Clients will not, as a matter of routine, be provided with further notification of the FX Business' intention to pre-hedge on a request by request basis. Any Client that does not wish for the FX Business to pre-hedge their request must notify their salesperson in writing.

Once an order has been received, the FX Business may manage its risk and any such hedging may be undertaken either by traders or via automated strategies.

Electronic Market Making and the Application of Last Look

Generally on electronic platforms, the FX Business provides indicative FX Spot price quotes, which invites requests to trade from Clients, and which may be withdrawn at any time.

Where liquidity is provided on an indicative basis, the FX Business reserves the right to either accept or reject any trade request received from a Client based on an assessment of whether the Client's trade request meets defined deal acceptance criteria.

The deal acceptance process, also referred to as "the last look window", involves credit, liquidity and malformed order checks as well as latency arbitrage protection. The latency arbitrage protection is introduced to prevent the acceptance of requests to trade that appear "on market" when initiated but are later found to have been "stale" or "off market" by the time the primary venues have updated their prices. The expected or typical period of time for making the deal acceptance decision is between 10 milliseconds and 150 milliseconds. Where a Client trades via a third party venue, the FX Business complies with the maximum permitted last look window prescribed by such third party venue.

The FX Business does not pre-hedge in the last look window when market making and applies last look symmetrically, which means trades are rejected if the prevailing market has moved materially either in the Clients' favour or against them.

Market Data Determination

When required, the FX Business will endeavour to determine in good faith and in a commercially reasonable manner the highs and lows of the FX Spot market in accordance with prevailing market practice (noted below).

- Transactions used for the determination must occur between Monday 07:00 New Zealand Time and Friday 17:00 US Eastern Standard Time.
- The FX Business will observe transactions on EBS and Reuters or on other appropriate venues should prices not be available on the aforementioned venues.
- Transactions must be of commercial size, noting that this amount will vary based on the currency pair and liquidity levels in that currency pair. In liquid markets, a minimum of 3 confirmed trades of minimum size USD1 million each must be observed at a level on the primary dealing venues as noted above. For

illiquid currencies or in extraordinary market circumstances for liquid currencies, the FX Business may, at its discretion, use less than three confirmed trades.

- For currency pairs that are not commonly quoted, the FX Business may, at its discretion simultaneously use one valid high or low trade, as defined above, together with a tradeable price observable on the primary dealing venues noted above, in order to calculate cross-currency rates.
- Transactions executed at off-market prices are not taken into account when determining the high or low level, unless otherwise agreed by the parties.

Barrier Options

As an active participant in the FX options market, there may be situations where routine hedging or trading activity undertaken by the FX Business may unintentionally impact the movement of the underlying reference price of a barrier option.