

Trading Practices and Information - Fixed Income, Foreign Exchange and Commodity Products

November 2020



The purpose of this letter is to clarify the nature of the trading relationship between you and ICBC Standard Bank Plc, its branches and subsidiaries (collectively the “Bank”), with respect to how we:

- trade on a principal (not agency) basis in wholesale fixed income, foreign exchange (“FX”), and commodity products;
- deal with transaction requests;
- price transactions;
- work orders;
- deal with emerging market government treasury auctions;
- risk manage and hedge;
- deal with benchmarks;
- operate Last Look on electronic trading platforms; and
- use and manage counterparty information.

Introduction

- This letter seeks to clarify the nature of the trading relationship between you and the Bank, and discloses relevant practices and certain terms of dealing used by the Bank when acting as a dealer or counterparty, on a principal basis, of wholesale fixed income, FX, and commodity products, including but not limited to securities, spot FX, spot commodities, derivatives and other related financial instruments (together “Financial Products”). This letter does not apply when we are acting on an agency basis.
- This letter sets forth how we will communicate and transact in relation to placement of orders, requests for quotes, requests for indicative prices, and all other expressions or indications of interests that may lead to the execution of transactions.
- The Bank is dedicated to upholding the highest level of integrity and adhering to the rules, regulations and requirements published by relevant international groups and regulatory bodies in our dealings with clients and other market counterparties (collectively “Counterparties”), including when such Counterparties are dealing as agent for another principal. In doing so, we seek to ensure that there are no ambiguities or misunderstandings with regard to the Bank’s practices or terms of dealing.
- The Bank is a leading financial markets and commodities firm that operates as a dealer, counterparty and market maker in wholesale fixed income, FX, and commodity markets. As such, the Bank engages in activities such as price discovery, price quoting, order taking, trade execution and other related activities. Unless otherwise expressly agreed, the Bank engages in these transactions as principal for the benefit of the Bank. In the ordinary course of these activities, the Bank may make or hold a broad array of investments, securities and instruments, both for their own account and on behalf of their clients. It should be noted that the Bank and its Counterparties may have divergent or conflicting interests, and that the Bank has established controls designed to mitigate or avoid potential conflicts of interest.
- This letter is supplemental to any other applicable terms of dealing in place between us (e.g. ICBCS Terms of Business, Derivatives Master Agreements) and any law or regulation applicable to our trading activity. To the extent that you continue to discuss and/ or enter into transactions involving Financial Products with the Bank, and except as otherwise expressly agreed between the Bank and you, it will be on the basis of the terms disclosed in this letter. This letter may be updated from time to time in order to address changing regulatory, industry and other developments.

Counterparty Transaction Requests

- Counterparties may submit transaction requests in a number of different forms, including placement of orders, request for quote, requests for indicative prices, or other expressions or indications of interests.

- Subject to any applicable terms and conditions, the Bank is under no obligation to accept and act upon any Counterparty transaction request in any form, including voice and electronic. Except as required by any applicable terms and conditions or applicable law, the Bank may return an accepted transaction request to the Counterparty at any time and acceptance of a transaction request does not oblige the Bank to enter into any transaction with a Counterparty, in whole or in part.
- When a Counterparty transmits a transaction request to the Bank on any electronic platform, the Bank shall follow the procedures applicable to the execution method and platform selected by the Counterparty.
- A transaction request sent to the Bank by electronic messaging will not be considered to be received by the Bank until the Bank's representative confirms the receipt of the request. During the period between the electronic transaction request submission and the Bank acknowledging the request you will be exposed to the risk that your transaction request may not be executed or may be executed at a less favourable level due to changes in the market conditions.
- The Bank will use its judgement based upon available market and internal information, including, but not limited to, available price levels and actual liquidity available during circumstances such as a disruption event, to determine whether the parameters of a transaction request have been met and the extent to which a transaction request can be satisfied under prevailing conditions to enable execution of a transaction in whole or in part.

Principal Capacity

- When acting in a principal capacity, the Bank acts as an arm's length party to transactions with our Counterparties. The Bank does not act as agent, fiduciary, or financial, legal, regulatory, tax, business, investments or accounting advisor or in any similar capacity on behalf of a Counterparty, except as expressly agreed in writing beforehand. The Bank therefore does not undertake any of the duties that an entity acting in that capacity ordinarily would perform, unless otherwise expressly agreed between the Bank and the Counterparty, or where there is a specific regulatory obligation. Whenever the Bank acts in a principal capacity it is ICBC Standard Bank Plc that is legal Counterparty to the transaction.
- The Bank will be truthful in its statements about any facts, but its statements should not be construed as recommendations or investment, tax, accounting, legal or other advice. Counterparties are expected to evaluate the appropriateness of any transaction based on the Counterparty's own facts and circumstances and its assessment of the transaction's merits. This evaluation should include, among other things, the transaction's terms and conditions and take into account the Counterparty's objectives and circumstances.

Transaction Pricing

- Unless otherwise expressly agreed, any firm or indicative bid, offer or price quoted by the Bank to a Counterparty is an "all-in" price, inclusive of any markup above the price at which the Bank transacted, or may be able to transact, with other Counterparties. The Bank's sales and trading personnel are not obligated to disclose the amount of revenue the Bank expects to earn from a transaction, nor are they required to disclose the components of the Bank's all-in price (for example any markup). The Bank, will, however be truthful with the Counterparty if we choose to make a disclosure about whether and how much markup is included in a price.
- The Bank may have a stake in or other relationship with trading venues and clearing systems on which the Bank operates, and as a result may receive financial or other benefits that are not shared with you, including the Bank's participation in incentive schemes of such trading venues and clearing systems.
- In determining any markup, the Bank may take into account considerations such as liquidity of the transaction type in prevailing markets, market conditions, the type of transaction request, the execution venue, the type, size and/ or complexity of the transaction, credit, funding, and capital costs, risk management/ hedging, risk limit utilisation, trade processing costs, sales efforts, applicable regulatory requirements, and any other relevant considerations.

- As such considerations may vary over time and between clients, the Bank may offer different prices to different Counterparties for the same or similar transactions or components of such transactions. For any given Counterparty, different markup levels may apply to different types of transaction requests depending upon the considerations noted above. The inclusion of a markup may impact the pricing and/ or the execution of an order, where the order is linked to or triggered at a specific price level.
- The Bank and a Counterparty may, from time to time, discuss a bid, offer or order designated as “pay on top,” “on top” or otherwise involving a payment arrangement linked to, or in addition to, a proposed or actual transaction execution price. The Bank’s acceptance of and/ or effort to fulfil such bids, offers or orders does not constitute an agreement that the Bank is acting as the Counterparty’s agent.
- The Bank aims to provide a consistently high standard of execution, including the provision of fair pricing, to all Counterparties when transacting on a principal basis in Financial Products.

Working an Order

- The Bank does not generally take orders in Financial Products, except in Commodity markets and certain other limited product types (such as Bonds/ Bills), and then only when specifically agreed with a Counterparty. When the Bank is willing to work a Counterparty’s “order” at a price (such as a limit order), the Bank is indicating a willingness to attempt to enter into the trade at the price requested by the Counterparty.
- Unless otherwise specifically agreed, the Bank will exercise its discretion appropriately in deciding whether to work an order, which orders it would be willing to execute, when it would be willing to execute them, and how it would execute them, including whether to execute all or part of the order, unless we have otherwise expressly agreed to different terms of execution. As such, the Bank’s receipt of an order or any indication of working an order received from a Counterparty does not create a contract between the Counterparty and the Bank that commits the Bank to execute any or all of the order in any particular way.
- As it relates to timing, the Bank may look for market opportunities that satisfy both a price where we can execute a Counterparty’s order at the Counterparty’s desired price and earn a reasonable return for that activity, including while managing and prioritizing other interests, positions and executions for the Bank and other Counterparties.
- The Bank is not required to disclose to a Counterparty when the Counterparty attempts to leave an order that the Bank is handling other Counterparties’ orders or the Bank’s orders ahead of, or at the same time as, or on an aggregated basis with, the Counterparty’s order. The Bank is under no obligation to disclose to a Counterparty why the Bank is unable to execute the Counterparty’s order in whole or in part.
- If and when a Counterparty’s order can be executed at the order price, it does not mean that the Bank held, acquired, or would acquire, inventory to complete the transaction at the order price level or that there exists a tradable market at that level. The Bank reserves the right to execute a transaction with a Counterparty using the Bank’s inventory or through acquisition or other hedging activities without disclosing to the Counterparty the source and the Bank’s cost of liquidity.

Emerging Market Government Treasury Auctions

- When the Bank receives a client bid in relation to an emerging market government treasury auction a matching bid will be submitted to a local primary broker. By placing a bid with the Bank the client is deemed to be promising to buy Treasury Bonds/ Bills from the Bank on the settlement date in line with any successful bid volume and price. The Bank will either charge a spread or an agreed “pay on top” percentage above any successful bid price (in such circumstances the Bank is not acting as an agent on behalf of the client but transacting on a back to back principal basis). Where the Bank receive an auction allocation that is insufficient to meet all house and client bids then bonds/ bills will be allocated on a linear pro rata basis.

- The Bank may, at its discretion, make available to existing holders and potential holders the Bank's good faith view of the range of likely successful bid rates for an auction based on market and other information. Such a view is not a guarantee, nor is it to be considered investment advice, and existing holders and potential holders are free to use it or ignore it at their discretion and should always make their own informed investment decisions.

Market Making, Risk Management and Hedging

- As a market maker or liquidity provider in Financial Products that handles a portfolio of positions for multiple Counterparties' competing interests, as well as for the Bank's own interests, the Bank acts as principal and may trade prior to or alongside a Counterparty's transaction to execute transactions for the Bank or to facilitate executions with other Counterparties, to manage risk, to source liquidity (through a variety of means, including internal liquidity, external trading venues or interdealer markets), or for other reasons. These activities can have an impact on the prices we offer a Counterparty on a transaction and the availability of liquidity at levels necessary to execute Counterparty transactions. They also can trigger stop loss orders, barriers, knock-outs, knock-ins and other similar conditions. In conducting these activities, the Bank endeavours to employ reasonably designed means to avoid undue market impact.
- In addition, as a market maker or liquidity provider in Financial Products, the Bank may receive requests for quotes and multiple orders for the same or related Financial Products. The Bank acts as principal and may seek to satisfy the requests of all of its Counterparties and its independent risk management objectives, but it retains discretion with respect to how to satisfy its Counterparties, including with respect to transaction execution, aggregation, priority and pricing.
- When solicited for, and prior to the execution of a transaction, the Bank may risk-mitigate or hedge any exposure in order to legitimately manage the resultant risk to which the Bank would be exposed to, and/or to enhance smoother execution and obtain an improved price for the Counterparty. The Bank will ensure that any hedge is part of the Bank's legitimate business activities and no larger in size than the risk being mitigated. We may choose to leave a position unhedged or partially hedged, and may adjust any hedge from time to time in our sole discretion. Hedging activities may include trading in the same product, trading in correlated products, or establishing derivatives positions on any of the foregoing, and may also take account other sources of exposure (such as market dislocations and disruptions). When undertaking such hedging activity the Bank will give due consideration to the likely impact the pre-hedging will have upon the client's order(s) and the market.
- In order to adjust or unwind a hedge, we may need to trade in the relevant or related product. As a result, we may be unwinding or adjusting hedge positions before the performance date or time for determination of a benchmark, fixing rate, or barrier price contained in your transactions, or our hedging strategy may involve greater and more frequent dynamic adjustments to our hedge as market prices approach a benchmark, fixing rate, stop loss level, or barrier price.
- All of the above hedging and hedge unwind activities may affect the market price of the relevant or related instruments. Regardless of whether or how we choose to hedge, any profit or loss resulting from any hedging activity will accrue to the Bank.

Orders for Execution at Benchmark Prices

- In order to meet the Bank's obligation to a Counterparty to execute a transaction at a benchmark rate, the Bank faces the challenge of finding an appropriate method of hedging the Bank's exposure arising from transacting at a price that is not yet known and will not be determined until the closing of a specified determination period (referred to as the "Benchmark Price Discovery Window"). Risk management practices will often result in execution of hedging transactions during the Benchmark Price Discovery Window itself because of a number of factors, including, but not limited to, changes in the full amount and direction of Counterparty orders prior to the Benchmark Price Discovery Window and variations in markets during this period. Given that other market participants may face the same challenge, the volume of transactions during the Benchmark Price Discovery Window may increase, and such transactions may impact the ultimate benchmark price (and may also impact pricing and volatility of related markets).

- The Bank engages in other ordinary course of business activities that may impact a benchmark rate, including sourcing liquidity for other Counterparty orders that are unrelated to a benchmark, or acting as a market maker or engaging in risk management activities. Such activities may cause the Bank to execute unrelated transactions during a Benchmark Price Discovery Window or at other times that may impact transactions relating to a benchmark.
- Finally, while the above describes transaction-based benchmarks, some benchmarks are established by means of submissions provided by central banks or by dealers, in which the Bank may participate. While these submission-based benchmarks differ from the transaction-based benchmarks discussed above, in the event that the Bank may act as both a submitter and participant in relation to such benchmarks the Bank has established controls designed to mitigate or avoid potential conflicts of interest.

Last Look on Electronic Trading Platforms

- The Bank, having received an electronic transaction request against a price (e.g. FX Spot or Precious Metals) it has published on an electronic trading platform, will have a final opportunity to accept or reject the request ("Last Look"). Last Look is a risk control mechanism used by the Bank in order to verify validity and/ or price. Validity checks are undertaken to confirm that the transaction details are appropriate from the Bank's operational perspective and there is sufficient credit available to enter into the transaction, while price checks confirm that the quoted price is still fair and consistent with the current price that would be available to the Counterparty.
- In the context of Last Look, the Bank has sole discretion over whether the Counterparty's transaction request is accepted or not. When utilising Last Look the Bank will:
 - not use it for purposes of information gathering where there is no intention to accept the Counterparty's transaction request;
 - treat the transaction request as confidential information and manage such information in line with the Bank's related policies; and
 - not undertake trading activity that utilises information from the Counterparty's transaction request during the Last Look window to the potential detriment of the Counterparty.
- If the price check shows that the refreshed price has moved relative to the price included in the client's transaction request by more than a defined price tolerance the Bank will reject the transaction request. The Bank employs a symmetric price check, applying a consistent tolerance to both positive and negative price movements.

Counterparty Information Handling

- Protecting the confidentiality and security of Counterparty information is an important part of how we do business. Counterparties should, however, understand that the Bank makes use of information provided to it as principal in order to effectuate and risk manage portfolios and transactions. Specifically, unless otherwise expressly agreed, the Bank may use the economic terms of a transaction (but not the Counterparty identity) as part of the process of sourcing liquidity and/ or executing risk-mitigating transactions. To facilitate this activity, the Bank may internally share economic terms relating to a Counterparty's transaction request to persons acting in a sales or trading capacity for the Bank, or to one of its affiliates or agents. In addition, as part of its obligations as a regulated entity, the Bank also shares Counterparty information as required by its global regulators. The Bank has policies, procedures and controls that are designed to protect a Counterparty's confidential information.
- We also may analyse, comment on, and disclose information regarding executed transactions, as appropriate and on an anonymized basis (except where information regarding executed transactions has previously been publicly disclosed), aggregated together with other relevant market information, internally and to third parties, as market colour.
- If you have questions after reading this letter or concerning the Bank's dealings with you, we encourage you to contact your Bank representative.

ICBC  **Standard Bank**

ICBC Standard Bank Plc | Financial Markets and Commodities
20 Gresham Street | London EC2V 7JE, United Kingdom