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BNP Paribas Global Markets: Spot Foreign Exchange Trading Practices

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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.

In some instances, the FX Business, through its segregated Automated Client Execution ("ACE") desk, 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 certain cases when acting as "riskless principal", the FX Business will only provide Clients with indicative FX spot quotes where the execution is contingent on the ACE desk's ability to successfully offset the market risk with another liquidity provider.

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:

- Providing liquidity to Clients and other Market Participants by quoting two-way prices for certain markets, by voice or through application programming interfaces (APIs), single and multi-dealer platforms, inter-dealer brokers, and exchanges; and,
- Managing inventory; and,
- Hedging to manage positions accumulated as a result of engaging in market making activity.

Since the FX Business engages in many activities across different regions and business lines, actual or perceived conflicts of interest may arise. In conducting its market making activities, the FX Business may have an impact on the prices offered to Clients and the availability of liquidity at levels necessary to execute orders. In addition, 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.

Mark up

The FX Business will provide an 'all-in' price or spread to Clients when acting in a principal capacity. Prices quoted by the FX Business should be considered indicative, and may be withdrawn at any time unless the Client has been informed that the price is firm. These prices or spreads will be inclusive of any mark-up, costs or fees associated with the transaction. Factors taken into account may include the size and nature of the transaction, the execution method, the prevailing market liquidity and the counterparty resource usage (e.g. capital, funding and balance sheet).

Order Management

In addition to market making, the FX Business will also accept and manage Client orders. An Order is a firm instruction placed by a Client 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. Clients can leave orders via electronic platforms and via voice.

Standard Orders (i.e. limit, stop loss, take profit, at best)

Orders left with BNPP will be executed on a principal basis. Clients may have the ability to leave orders whereby some of the details of the order execution are left to the discretion of BNPP.

Clients should be aware that the FX Business may be active in the market close to order trigger levels in the ordinary course of business. This activity may unintentionally impact the reference price and may result in orders being triggered.

Algo Orders

The FX Business offers Clients algorithmic trading strategies for executing FX Spot and NDF orders, accessing both internal and external liquidity. These algorithmic strategies are executed on a riskless principal basis and subject to a pre-agreed fee.

Fixing Orders

All Fixing Orders are managed by ACE desk on a principal basis and are subject to a pre-disclosed fee. When executing fixing orders, the ACE desk may need to hedge any associated risk by executing trades before, during, and after the fixing window, or may require manual execution by a voice trader in situations where automation is not possible.

Order Prioritisation and Execution

With the exception of Fixing Orders that are aggregated, all 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 electronic 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:

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

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.

Given the OTC nature of the market, the fact that a level has traded in the market is no guarantee that a limit order at that level will have been filled or a stop-loss/take-profit order will have been executed. The FX Business will use its professional judgment based on available market information and liquidity to determine whether an order has been executed. Clients may receive a partial fill of an order absent explicit instruction otherwise.

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 Market and Reuters Matching or on other appropriate venues should prices not be available on these 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 to be utilised. 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 described 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.

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 a specific 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.

Electronic Market Making and the Application of Last Look

Application of Last Look

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

Where pricing 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 up to 150 milliseconds. Where a Client trades via a third party venue, the FX Business also complies with the maximum permitted last look window if 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.

Pricing Continuity

In periods of extreme market volatility and/or disruption, the FX Business has, on some occasions, seen delays to the acceptance and execution of trade requests, pricing, price streaming and/or market data dissemination. The FX Business is not obligated to provide pricing, price streaming or accept trade requests at all times and, in line with market practice, all electronic trading platforms used by the FX Business have position limits, volatility and other controls, that in each case may temporarily suspend execution, pricing and price streaming during these periods.

Information Handling

The FX Business has arrangements in place designed to protect and safeguard Client information in accordance with applicable local laws, rules and regulations. Client information will be handled with due care and diligence in accordance with such arrangements.

Unless otherwise agreed, the FX Business may:

- Make appropriate use of the economic terms of Client information in order to effect and risk manage transactions, for example in sourcing liquidity in anticipation of counterparty needs, executing hedging or risk-mitigating transactions, and/or managing associated market risk. It will not disclose the Client name in these circumstances.
- Appropriately disseminate sufficiently aggregated and anonymised Client information, to contribute to the provision of market colour, including on the general state of market conditions and/or in forming a market view. Such information will be disseminated appropriately, and Client confidentiality will not be compromised.
- Where the FX Business acts as "riskless principal" where the execution is contingent on its ability to successfully offset the market risk with another liquidity provider, it will use anonymised unique Client tags on trade requests in the course of sourcing liquidity.

In addition, as part of a regulated entity, the FX Business may also be required to disclose Client information to our regulators and/or other public authorities.