

BNP Paribas CIB
Order Handling and Execution Policy
Asset Class Specific Appendices
Commodity Derivatives Appendix

BNP PARIBAS CIB GLOBAL MARKETS
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1. Products in scope

This policy is an appendix to the overarching BNP Paribas CIB Order Handling and Execution Policy and should be read in conjunction with that document. Terms used in this Appendix but not otherwise defined shall have the meaning given to them in the BNP Paribas CIB Order Handling and Execution Policy.

This appendix provides further details with regards to the application of best execution in relation to the financial products based upon the following underlyings (the “**Commodity Derivatives Products**”):

- Electricity
- Emissions
- Natural Gas
- Carbon
- Agricultural Products
- Soft Commodities
- Coal
- Freight
- Oil Products
- Biofuels
- Metals
- Crude Oil (Futures, Cracks, Spreads and Synthetics)

With respect to the Commodity Derivatives Products, we provide the following services:

- Requests for Quote (“RFQ”);
- Unwinding or restructuring a derivative or secondary market product;
- Transactions resulting from the provision of investment advice;
- Executing of orders pursuant to specific instructions and therefore without discretion; and
- Discretionary orders



2. Application of Best Execution for products in scope of this Appendix

Retail clients

We will always owe a duty of best execution to retail clients unless they place an order with specific instructions that cover each and every aspect of that order.

Professional clients

In respect of the Commodity Derivatives Products, whether or not a duty of best execution is owed for a particular trade will depend on whether BNP Paribas determines that the client has placed legitimate reliance on it to meet the relevant best execution requirements. This is, in practice, is less likely to apply where clients have asked us for a quote (RFQ), as well as when we execute orders pursuant to specific instructions (and therefore without discretion) or provide executable or streaming (two way) prices.

Requests for Quotes and Executable Streamed Prices

Where a client executes a trade directly from a live streamed BNP Paribas price or submits a request for quote, the obligation to provide best execution will depend upon whether or not the client is placing legitimate reliance upon BNP Paribas in the execution of the transaction. This will be determined by a number of factors, including the complexity and transparency of the product / market, the level of sophistication of the client and the ability of the client to seek alternative competitive quotes.

BNP Paribas will take these factors into consideration to assess whether or not a duty of best execution is owed, but considers that for such activity, Professional Clients will not generally be placing reliance upon BNP Paribas.

Specific Instructions

Where a client places an order with specific instructions that cover each and every aspect of an order, BNP Paribas, acting in accordance with these instructions, will not have any discretion over the execution of the transaction, including when or where to execute the order. As such BNP Paribas will fulfil its best execution obligations, to the extent they exist, by executing the transaction in accordance with the client's instruction.

To the extent that a client places an order with specific instructions that only cover partial aspects of the order additional best execution obligations will be owed on the aspects of the order in respect of those elements not covered by the instructions, for instance where the order does not specify the venue on which the trade should be executed on.



3. Execution factors taken into consideration

When executing transactions in Commodity Derivatives Products where best execution applies, in the absence of any specific instructions, in general, BNP Paribas will prioritise the Execution Factors in the following order, though there may be specific circumstances where it may be more appropriate to change the order of priority:

- i. **Size of the request**
A quotation will be provided such that the full size requested by the client can be filled. If, due to market conditions, this is not possible BNP Paribas will communicate this to the client with a view to changing the execution criteria to facilitate partial fills.
- ii. **Speed**
When a client submits an RFQ we will prioritise speed of execution over price. Should the client wish to prioritise price over speed an alternate order type may be more appropriate and the client should communicate this to BNP Paribas when placing the order.
- iii. **Price**
BNP Paribas seeks to provide a highly competitive service to clients and will respond with a price it considers competitive and fair.
- iv. **Likelihood of execution**
BNP Paribas will endeavour to provide a quotation which is valid for a sufficient time window to allow the client to accept if they so desire, notwithstanding a large market move rendering the quote invalid.
- v. **Likelihood of settlement**
Before responding with a price BNP Paribas will check credit line, CCP limit and or settlement limit availability and will only respond with a firm price where sufficient limits are available to settle any resulting transaction.
- vi. **Ability of execution venue to manage the quotation request**
BNP Paribas is authorised to trade a number of financial instruments within predetermined risk limits; any RFQ on an instrument outside this scope or beyond the risk limit, typically for larger size transactions, may be declined and the client notified accordingly.



4. BNP Paribas' choice of execution venues

BNP Paribas will generally act as the execution venue for all Commodity Derivatives Products. BNP Paribas believes that using BNP Paribas as execution venue for Commodity Derivatives Products is in the best interests of its clients for the following reasons:

1. Bespoke product range

BNP Paribas is able to offer liquidity on bespoke derivative contracts across a wide range of underlyings, whereas external venues offer standardised products;

2. Likelihood of execution and settlement

BNP Paribas is able to offer consistency in liquidity provision as well as the ability to hold prices firm for sufficient time to improve the likelihood of execution.

3. Price

BNP Paribas aims to provide a competitive service and is often able to offer clients an improvement on the price available elsewhere. When executing a previously provided quote BNP Paribas will take into account any change in market conditions during the time elapsed from when the quote was made adjusting the quote accordingly where market conditions dictate; and

4. Market impact

BNP Paribas maintains significant inventories to facilitate client transactions. By using these inventories and transforming liquidity in related instruments we are able to minimise the implicit cost to clients by minimising market impact.

Whilst clients will generally face BNP Paribas as the execution venue, BNP Paribas will utilise a number of execution venues in executing hedge transactions related to OTC transactions executed for clients and in more limited circumstances where BNP Paribas executes an order for clients directly on another execution venue (typically a regulated market). A list of the major execution venues that BNP Paribas relies upon when executing such trades is provided in the execution venues appendix of the BNP Paribas Order Handling and Execution Policy.



5. Price formation and monitoring

When Best Execution has been determined to be owed, and when BNP Paribas executes orders or takes a decision to deal in OTC products (including bespoke products), we will check the fairness of the price proposed to the client by gathering market data used in the estimation of the price of such product and, when possible, by comparing with similar or comparable products.

The price will consist of a mid-market price to which a number of costs and margins are added to produce the final price proposed to the client.

In addition, where we owe clients a duty of best execution, we will use the following processes to analyse the prices obtained for our clients and the quality of execution obtained.

5.1 Ex-ante price formation

BNP Paribas makes extensive use of the external market prices of similar or related products to estimate the “fair value” of a financial instrument. These external tradable prices are then, together with model parameters, used by BNP Paribas proprietary models to price a range of products. Throughout the trading day BNP Paribas recalibrates these model parameters tracking available markets and ensuring its prices remain accurate and up to date.

Once the fair value has been determined, BNP Paribas adds an execution spread; this is an explicit internal cost representing BNP Paribas’ own remuneration for the liquidity provided. BNP Paribas assesses market conditions and adjusts the execution spread in line with internal guidelines.

Finally, a number of other costs, including credit and funding charges and any applicable mark-up, are added to produce the price proposed to the client.

Under the MIFID II and as per Article 24(4) of Directive 2014/65/EU and Article 50 of the Commission Delegated Regulation, the difference between the client price and the fair value of the financial instrument are subject to disclosure to the client.

5.2 Ex-post monitoring and review of prices

Prices provided by BNP Paribas are benchmarked against external and internal reference prices to monitor that Best Execution is achieved on a consistent basis. Wherever possible, external prices from market venues and brokers are used to compare BNP Paribas’s price against externally available prices. Where the external data available is limited in scope or quality, internal data may be used as a reference. Where internal pricing data is used, additional controls are implemented to monitor the integrity of this data.

Where Best Execution is judged to be owed, BNP Paribas will monitor the execution spreads applied to determine that the trade has been executed in accordance with the policy.

