

## Foreign Exchange Disclosure Statement to Clients of CACIB

### Statement of Purpose

The purpose of this statement is to ensure there is a full understanding of the nature of the relationship between the client and CACIB as a principal only, in the FX market when transacting with CACIB.

CACIB has therefore implemented specific policies and procedures to ensure that its employees conduct themselves at the highest levels of professional behaviour including guidance on what constitutes unacceptable behaviour, trader misconduct, breaches of client confidentiality, and failure to manage conflicts of interest. To this end there is regular and specific training on these policies and procedures for relevant staff, active management oversight, regular monitoring of conflicts of interest and there are clear escalation and resolution channels should evidence of a breach be identified.

Furthermore, these (and other) policies and procedures have been written with the intention of addressing the conflicts of interest common in principal to principal trading relationships, understanding the interests of our clients and other stakeholders. Our efforts have broadly focused on the following, but non-exhaustive categories:

- Conflicts of interest in order handling and specific guidelines to manage and monitor order-handling, including restriction in the use of personal account dealing.
- Handling of order filling in a fair, timely and complete manner, with increased anonymity for clients.
- Treatment of FX spot orders that could impact the determination of any relevant benchmark.
- Specific FX guidelines on appropriate distribution of market colour internally and externally.
- Adequate monitoring and testing to ensure compliance with order handling policies and procedures.
- Controls around IT systems to ensure only authorised staff may handle client transactions.
- Internal FX Code of Conduct to detail required standards of behaviour and conduct around specified risks.

Further we are active in industry forums that are seeking to implement higher standards in the wholesale spot FX markets, and other markets.

### **Client Information**

CACIB will maintain its duty of confidentiality for its clients including order, transaction execution and portfolio information details. Where it is necessary for CACIB to provide and use certain information to ensure effective execution of orders and internal risk management, CACIB will limit such use and disclosure as set out below.

CACIB will ensure that only information where relevant will be disseminated to allow efficient execution of the transaction. CACIB has policies and controls that are designed to protect clients' proprietary information from inappropriate dissemination or misuse. However, clients should be aware that it is necessary for CACIB to (i) share certain information internally on a need to know basis in order to manage CACIB's market making positions, including for the benefit of CACIB's trading positions and the handling of other client transactions and (ii) provide such information to third parties, on a non-disclosed basis in order to facilitate the execution of client transactions.

Where non-standard orders are placed with CACIB (for example, an order of a large notional size or in a currency or product whose liquidity may be limited), CACIB may need to determine pricing by obtaining liquidity internally from a CACIB trading desk or by entering into one or more transactions with third parties. In addition, CACIB actively manages the risks associated with potential transactions (including market, liquidity and credit risks) in accordance with its internal risk management policies and may need to execute one or more risk mitigating transactions. Accessing liquidity or risk mitigation may require, among other things, the sharing of terms relating to a client order internally in order to establish the price of a transaction or for the purposes of managing the risk of that transaction (risk mitigation or risk management is concerned with the reduction in the extent of exposure to a risk and/or the likelihood of its occurrence).

### **Provision of Information**

As part of the provision of services to clients and for internal purposes, CACIB is involved in collating market data in the markets in which it operates. This can involve looking at a number of factors and data sources including economic and political developments, jurisdictional issues, trading patterns and pricing. These factors and data sources are distilled into what is generally described as "market colour". The sources of data which CACIB uses and may provide when determining market colour is anonymised (i.e. with all information that could identify a client removed) to represent executed orders and transactions on an aggregated basis. Market colour may be used by CACIB to assist in structuring products and services for its clients

and also shared with internal CACIB trading desks that may or may not act on the basis of the information provided.

Please note that CACIB has regulatory and other statutory obligations and will share client information as necessary to meet its ongoing obligations and respond to general and specific regulatory and legal requests.

### **Client Orders & CACIB Trading**

Whenever a client seeks to enter into an FX transaction with CACIB, CACIB as a principal may continue to establish, maintain, modify and terminate positions for its own account in the same FX products in which its clients trade to ensure that it has sufficient capacity to meet anticipated client demand or respond to market movements. CACIB is a market maker across currencies and products, with employees trading across global locations on a continuous basis whenever markets are open for trading. As a result, subject to internal controls relating to the use of client order information and compliance with applicable laws and regulations, CACIB's global activities may result in a CACIB trading desk other than that handling the order of a given client ("Client A") executing a transaction for the benefit of CACIB or another client at a price that could satisfy Client A's order. As a principal the basis of CACIB trading decisions are often shared with CACIB clients as trade ideas or market colour, upon which the clients may or may not act. It is possible, therefore, that CACIB could have positions for its own account that are the same, similar, different or opposite to the positions of its clients.

Clients should also be aware that the execution of a transaction by CACIB for its own account or for another client in the circumstances indicated above, including transactions in other products or currencies, may impact the market price for the FX product or currency pair that is the subject of a client's order. In addition, CACIB may unwind, terminate and/or close out the whole or any part of any FX transaction with a third party prior to, at or after the time at which: (i) the valuation of an FX transaction with a client is fixed; (ii) the valuation of an external market fixing or benchmark to which the FX transaction makes reference is fixed ; (iii) the FX transaction becomes due to settle; or (iv) a client's rights (or CACIB's rights) to require settlement of the FX transaction become exercisable. Such activities may affect currency exchange rates directly or indirectly, which, in turn, may have an adverse impact on the value of an existing FX transaction and/or may trigger certain provisions of an existing FX transaction, such as option strike prices, barriers, baskets, indices or reset provisions.

CACIB is a market maker in FX derivatives markets, and serves as a principal and facilitator of customer transactions. As an active participant, CACIB's options-hedging and delta-hedging activities through the normal course of business may impact the market-price, valuation and outcome of clients' options-related structures.

This includes that, as a principal, CACIB will take the necessary steps to hedge the risk associated with managing barrier options positions, which may impact the triggering of client barriers. To hedge barriers, CACIB options traders will leave stop-loss / take-profit orders with the CACIB Spot desk such that these orders reasonably reflect changes in delta from barrier option positions. **This will be done without prior notification to clients.**

Also, CACIB caters for multiple clients simultaneously and, as such, acting on behalf of a client may come to the disadvantage of another in terms of the market movements generated whilst handling multiple client orders.

CACIB traders undertake not to deliberately attempt to trigger or defend a barrier or a digital option which are practices outside the reasonable hedging activities mentioned above.

CACIB has in place policies and practices to address these issues, such as but not limited to potential conflicts of interest, partial fills, inappropriately trading ahead of client orders and unfair “transaction window” client fills. General information as to how CACIB identifies and manages such potential conflicts of interest can be found in CACIB’s global conflicts of interest policy.

### **Defined Rate Orders**

CACIB may accept an order from you to buy from you or sell to you at a fixed price. In such cases, CACIB trades with you as a principal. In exceptional circumstances CACIB may at its sole discretion choose not to accept the order if it does not consider it to be an appropriate transaction.

To manage its own risk in relation to filling your order, CACIB may execute trades with other participants when the market is close to the price level of your order. There is a risk that CACIB's trading activity could affect market prices, potentially against your interests.

### **Orders for Benchmark Prices at Specified Fixing Times**

Orders for transactions whose pricing is set by reference to certain FX benchmarks can create additional challenges for transaction execution and management of attendant risks. The following relates to currency rates that are calculated by an unaffiliated third-party at a specified time of day, such as the WM/Reuters Closing Spot Rates service, commonly known as WMR Benchmark.

For benchmark fixings at or within a precise time frame, the relevant rate of exchange is based upon available data from available transaction information in the relevant market for the specified currency pair, from available executed transaction information for a defined period immediately preceding/following the relevant time of day time (commonly referred to as the “Fixing Window”). When CACIB accepts a client order for such a transaction, CACIB generally guarantees its client that CACIB

will execute the requested transaction at the relevant fixing rate (unless the client cancels the order in a timely manner) . Given the nature of the benchmark setting process, the actual fixing rate is unknown at the time that such an order is placed, and will only be determined by the relevant third party provider after the completion of the Fixing Window.

N.B. The bid and offer rates for the WM/Reuters Closing Spot Rates service (WMR) are sourced by CACIB directly from The World Markets Company plc (“WM”) in conjunction with Reuters by direct electronic feed. It should be noted however that the mid price (normal execution price) is generated by CACIB’s systems, derived from the median of the bid and offer prices CACIB receive from WM. Further, the mid calculation method employed by CACIB is precisely as described by WM in their “Spot & Forward Rates Methodology Guide” (see link).

<http://www.wmcompany.com/pdfs/WMReutersMethodology.pdf>

The WM/Reuters Closing Spot Rates provided by The World Markets Company plc (“WM”) in conjunction with Reuters. WM shall not be liable for any errors in or delays in providing or making available the data contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees’ negligence.

To meet CACIB’s obligation to a client to execute a transaction at a benchmark rate, CACIB faces the challenge of finding an appropriate method of hedging the exposure arising from transacting at a price that is not yet known. As the full amount and direction of client orders may change prior to the Fixing Window, and given that markets may vary during this period, risk management practices may lead to execution of hedging transactions prior to, during and post the Fixing Window itself. Given that other market participants may face the same challenge, the volume of transactions during the Fixing Window may be amplified, and such transactions may impact the ultimate benchmark fixing (and may also impact pricing and volatility of related FX markets).

CACIB engages in other ordinary course of business activities that may impact a benchmark rate, including sourcing liquidity for other client orders that are unrelated to a benchmark fixing, or acting as a market maker or engaging in risk management activities. Such activities may cause CACIB to execute unrelated FX transactions during a Fixing Window or at other times that may impact transactions relating to a benchmark fixing.

Finally, while the foregoing summary describes transaction-based benchmarks, some benchmarks are established by means of submissions provided by dealers in which CACIB may participate, or by means of central bank specification. Further details can be provided upon request.

## Market orders

CACIB may accept an order from the client to buy from the client or sell to the client at a price determined by the prevailing market conditions. This includes, for example:

- "at best" orders for immediate execution;
- orders with specific instructions (for example, to break the order into tranches executed over a given time period); and
- automated algorithmic execution strategies, which may be referenced against specific price sources.

For all market orders, CACIB will use its professional judgment as to how to execute the client's order. To manage its own risk in relation to filling the client order, CACIB may execute with other market participants. Any such trading activity CACIB undertakes could affect market prices and the client's final execution price. Alternatively, CACIB may elect not to hedge all or part of its' risk in the markets. The final price at which CACIB executes the order with the client will be one that in its discretion CACIB views appropriate to meet the terms of the client order based on current market conditions.

## Limit orders

CACIB may accept a limit order from the client to buy from the client or sell to the client if the market reaches a certain level (e.g., stop loss orders), or according to any other criteria that CACIB has agreed with the client. When CACIB accepts such an order, CACIB retains the discretion whether or not to fill the order, regardless of movements in market prices. In circumstances of market volatility and or unpredictability it may not always be possible to execute any given order in its entirety resulting in the potential for a "partial fill" or a fill significantly away from the level requested.

This could result in instances in which the market price reaches the level the client has specified but the clients' order is not executed at all or is not executed at the level or at the time at which it might have otherwise been executed. CACIB will act in good faith to execute the client order within the market conditions prevailing at that time but this should not be regarded as a binding commitment by CACIB. CACIB assumes that its' clients will be in agreement with this strategy unless they specifically confirm otherwise.

If clients wish to avoid the potential that a limit order might not be executed in full, the clients should not place limit orders but instead request that CACIB provide a firm quotation at which CACIB would commit to buying or selling at the quoted price.

CACIB may elect to manage its own risks in relation to filling a limit order. Therefore CACIB may execute trades with other participants including when the market is close to the trigger level of a client order. Consequently, there is a risk that CACIB's trading

activity could affect market prices that makes it more likely that the client order will be triggered, and affect the final execution price, potentially against the clients' interests. The final price at which CACIB executes the client order will be selected at CACIB's discretion based upon its' view of current market conditions to meet the terms of the client order.

## **Pricing & Margin**

CACIB would like to draw client's attention to the way that it will handle, execute and price client orders and transactions.

Unless otherwise disclosed, CACIB will generally provide clients with a single "all-in" price only. For certain products, additional amounts may apply, including: (a) the costs related to execution including execution venue fees, clearing and settlement fees and other fees paid to third parties involved in the execution of the transaction; and (b) or sales margin, in addition to the bid/offer spread.

The sales margin charged by CACIB is determined taking into consideration a variety of factors, which may include but not limited to:

- i. Service level provided;
- ii. The credit risk that CACIB will take on when transacting with clients;
- iii. The cost of capital CACIB incurs as a result of the transaction;
- iv. Volumes traded by the client; and
- v. Liquidity of the relevant marketplace.

The price, costs and sales margin for these products will vary depending on the client and transaction. The inclusion of costs and/or sales margin will apply to both requests for quotes and orders. For some order types in certain products, the addition of sales margin by CACIB may impact the price at which the order is executed.

CACIB may charge an explicit fee or margin that is reflected on CACIB's rate, which may or may not include a mark-up. Such fees, margins (mark ups) may vary between clients, between products, and in different market conditions, and are set at CACIB's sole discretion. CACIB may be paid a structuring fee distinct from payments made in connection with a transaction.

CACIB has a variety of costs and expenses associated with entering into and carrying out transactions. These may include, without limitation, fees, commissions and other charges that CACIB may become obligated to pay to third parties from time to time in connection with Transactions, including brokerage fees, referral fees, and execution, clearing and/or reporting fees associated with its compliance with applicable law. Unless otherwise agreed, clients will not be obligated to reimburse

CACIB for these fees, commissions or other charges, but as with any of its other costs and expenses, clients should assume they are reflected in the price or other economics of their transactions.

CACIB would like to make clear with regards to the historical practices outlined in this Disclosure Statement that CACIB has specific policies and procedures that address them, there is regular and specific training on these policies and procedures for relevant staff, there is active management oversight and regular monitoring of conflicts of interest, and there are clear escalation and resolution channels should evidence of a breach be identified.

CACIB takes its commitment to treating its customers fairly and upholding the highest levels of professional market standards extremely seriously. CACIB continuously reviews its internal systems, controls, policies and procedures to ensure that they align with CACIB's commitment to professionalism and best market practice. CACIB has systems, controls, policies and procedures in place that broadly cover but are not limited to:

- Monitoring;
- Conflicts of Interest;
- IT access, governance & development;
- Off premises system access;
- Annual leave;
- HR & succession planning;
- Market abuse;
- Gifts & entertainments;
- Introducing fees and benefits; and
- Staff codes of conduct.

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