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*Private & confidential*

National Australia Bank Group (NAB) FX Sales and Trading Practices

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## **NATIONAL AUSTRALIA BANK GROUP (NAB) FX SALES AND TRADING PRACTICES**

**This is for NAB's wholesale clients only.**

**This letter will be published on the [NAB Internet site](#).**

This letter sets out our practices in relation to spot and forward foreign exchange (FX) dealing with our clients (together with other market participants, "counterparties") in the wholesale FX markets, being either principal-to-principal transactions or transactions where you act as agent for another principal .

It also explains how we will communicate and transact in relation to the execution of FX transactions, expressions of interest in FX transactions and our management of potential or actual conflicts of interest in our FX-related activities.

You should read this letter in conjunction with the specific terms of service for counterparties utilising NAB's electronic FX trading platforms, copies of which are available upon request. This letter supplements, and is in addition to, any other disclosures and agreements that NAB may provide to or agree with you, including any master agreement for financial markets transactions such as the ISDA Master Agreement, NAB's currency overlay Mandate Agreement, NAB's general terms of business, any product disclosure statement and NAB's Dodd Frank disclosures. The Dodd Frank disclosures are available as a PDF document called NAB General Disclosure Statement which is available under the "international and foreign exchange" option in the Business tab on the NAB website or by clicking this [link](#).

This letter is not intended to exclude any mandatory obligations that we owe you under any applicable law or regulation. The terms of those obligations may vary depending on the precise nature of your relationship with us and the jurisdiction(s) in which our relationship is maintained.

Sincerely,

John Bennett

GM Institutional Sales

## NAB's FX Business

NAB's FX sales and trading business is a global business managed through the offices of NAB in a number of financial centres, including Bank of New Zealand (BNZ) in New Zealand. NAB's FX traders operate as dealers and market makers in the wholesale spot and forward FX markets. NAB's FX traders engage in price quoting, order taking, trade execution and other trading related activities. NAB runs a global FX trading book that is passed from time zone to time zone.

The FX Sales team face our counterparties and provide a range of services to counterparties, but they do not trade. The services provided by the FX sales team include trade ideas, market commentary and FX-related research (including technical analysis, and political and economic research). The Overlay Solutions Group provides a range of specialist services to clients which include the execution of foreign exchange contracts in accordance with written hedging instructions in a Mandate Agreement.

## Execution

### General principle

NAB will exercise reasonable care when negotiating and executing transactions in order to support a robust, fair, open, liquid, and transparent wholesale FX market

## Relationship

NAB does not act as broker, agent, fiduciary, financial advisor or in any similar capacity unless otherwise explicitly agreed in writing. NAB's sales and trading personnel and FX electronic solutions do not act as brokers or agents for clients.

Unless otherwise agreed, NAB acts as principal on a full risk transfer basis when executing a transaction. *Risk Transfer* means that NAB takes on market risk in connection with an order. The point at which that risk transfer occurs is when the transaction is executed between NAB and the client who gave the order.

A client may grant NAB discretion as to how it executes trades, both with respect to the timing and the level of execution, the extent of which can vary on a trade-by-trade basis. NAB acts as a principal when executing such orders. A client expresses an interest to transact with NAB within the scope of the discretion. As a principal, NAB acts in its own interests and without obligation to execute an order until both NAB and the client are in agreement.

## Conflicts of Interest

Transaction execution may take place through many different channels and with market participants like NAB taking on different roles with regard to that execution. Regardless of their respective roles in executing a transaction, market participants (including NAB and its clients) are expected to behave with integrity and to support the effective functioning of the wholesale FX market. NAB as a market participant may handle a client order in one instance and place an order with other market participants in another.

NAB traders manage large books with a number of requests for transactions coming from a number of sources daily. A buy trade with a client is not necessarily matched with a corresponding sell trade with another party. The book is managed on a portfolio basis within prescribed risk and capital usage limits. NAB FX traders may also position the overall portfolio in accordance with the market views of the FX trader, subject to their prescribed risk and capital limits.

NAB FX traders may have divergent and conflicting interests to those of their counterparties. For example, NAB may from time to time act in several capacities with regard to financial products, such as market maker, calculation agent or hedge provider. Such functions can allow NAB to take different positions to a counterparty, which could raise potential conflicts of interest.

Other parts of NAB may act in different capacities with respect to the counterparty. NAB is obliged under its Australian financial services licence to have in place adequate arrangements to manage conflicts of interest that may arise in respect of its financial services business.

## **Conflicts - Benchmark Orders**

NAB does not have a separate desk for benchmark orders because it is not a submitter or direct contributor to FX benchmarks. Benchmark orders are managed by trading desks. NAB may be involved in handling other, unrelated orders during the relevant fix window. Administrators of benchmarks calculated by reference to bids and offers in markets during a period (for example AFMA BBSW NBBO methodology) may use NAB's bids and offers in the market in accordance with their rules and without NAB being aware that a particular bid or offer is being used indirectly for the benchmark calculation.

## **Counterparty must make its own assessment**

NAB will report market information as accurately as possible. Any market commentary and trade ideas (including hedging strategies) will be based on personal views honestly held by the person providing the commentary or suggesting the trade idea. However market commentary and trade ideas must not be construed as independent research and are provided on a non-reliance basis.

You must independently evaluate the appropriateness of any transaction you enter into, based on your assessment of the transaction's merits, having regard to your own circumstances.

Clients should be aware of the risks associated with the transactions they request and undertake, and should regularly evaluate the execution they receive. Clients should clearly communicate expectations of the NAB in connection with the execution of their orders. Clients should make their own assessment of NAB's post trade execution. Please contact NAB if we are not meeting your expectations.

## **Customer Orders**

Where NAB receives an instruction from you to carry out an order in a specific manner, it will execute the order in accordance with your instructions. However, NAB may, in its sole discretion, refuse to accept any such instructions from you.

When NAB accepts an order that includes a price (such as a limit order) NAB will seek to fill such order, but its ability to do so may be limited by prevailing market conditions. Price volatility and low volumes may hamper or prevent NAB from filling orders. If a NAB FX trader is working an order, NAB will let the counterparty know if it cannot execute the order and/or that it can no longer hold the order because of market conditions. Unless otherwise specifically agreed, NAB will exercise its discretion (acting in a commercially reasonable manner) in deciding whether to execute 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.

Working an order does not necessarily mean or imply that NAB is acting as agent. It means that NAB will monitor the counterparty's requested target level in the market. The order may be cancelled by either party before the execution of such order is concluded. As such, NAB'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 NAB that commits the bank to execute any or all of the order in any particular way.

## **Order Types**

A "take profit" order (T/P), a "stop loss" order (S/L), an order for the fix and other types of order are explained in the 'NAB Order Management Guide', the current version of which is available to counterparties upon request. You should have a clear understanding of the conditions and ramifications of a S/L order before placing such an order with NAB, including the time validity for such an order. Stop loss orders require clear parameters, and the client should give NAB clear instructions on any stop loss order. The NAB order management guide also explains how NAB may exercise any discretion given to NAB as part of an order.

## **Pricing and Mark-Up**

If, and when, a counterparty's order can be executed at the order price, it does not mean that NAB held, acquired, or would acquire, inventory to complete the transaction at the order price level or that there exists a tradeable market at that level.

The price at which NAB executes a trade may include a mark-up over the price at which NAB transacted, or may have been able to transact, with other counterparties

**“Mark-Up”** is the spread or charge that may be included in the final price of a transaction in order to compensate the NAB for a number of considerations. These considerations might include NAB’s position, including its inventory strategy and overall risk management strategies, its costs, its risks, and other business factors and objectives, and services rendered to a particular client.

Mark-Up may impact the pricing and/or execution of any order linked to, or triggered at, a specific level. If a client gives the sales team an order at a specific level, the sales team may put Mark-Up on the order before giving it to the traders. Accordingly there is a risk that the client’s level may be reached but the order will not trigger due to the Mark-Up.

NAB has discretion to offer different prices and different Mark-Up to different counterparties for the same or substantially similar transactions.

### **All-in Prices**

Unless otherwise agreed, any firm or indicative price quoted by NAB to a counterparty is an “all-in” price, inclusive of any Mark-Up above the price at which NAB may be able to transact, or has transacted, with other counterparties, regardless of the circumstances under which a counterparty receives a price. NAB’s sales and trading personnel are not obliged to disclose the amount of revenue NAB expects to earn from a transaction, nor are they required to disclose the components of NAB’s all-in price other than in relation to hedging transaction costs and fees outlined in client overlay mandates.

Fee disclosures for specific products may be set out in documentation provided to clients in respect of those products.

### **Market Execution**

There is no single FX market and different venues may show a different spot price at a given moment. Trades may be executed directly between two FX traders in the market, by voice brokers or on electronic trading platforms. Each venue has its own liquidity and depth and there are times where there are differences in the prices available on different venues due to imperfect market information or different liquidity. NAB FX traders use their skill and discretion in deciding which venue to use for their trades in the public market. Similarly, the FX trader may refer to price and volume information from a number of venues in order to determine whether to fill a counterparty order.

Factors that may affect execution may include positioning, whether NAB is taking on the risk or not, prevailing liquidity, market conditions and trading strategies.

There is potential for orders to be executed manually or electronically, depending on the terms of the order.

### **Large Orders**

Large orders from clients may require management by NAB in order to maintain reasonable market integrity. There are certain transactions that may be required in the ordinary course of business, such as transactions related to merger and acquisition activity, which could have a sizable impact on the market. These transactions will be appropriately managed and executed by NAB.

### **Order Handling**

When handling client orders NAB will:

- Strive for a fair and transparent outcome for the client
- Communicate honestly and clearly with the client
- Make clear whether the prices quoted are firm or merely indicative
- Discuss how to manage a client order which has the potential to disrupt the market
- Time stamp transaction executions

If a client’s order might cause disruption to the market, NAB and the client will endeavour manage the order to reduce the risk of causing market disruption.

## **Partial Fills**

NAB shall handle a partial fill or potential partial fill of a client order based on prevailing market circumstances and any other applicable factors. When NAB makes a decision on whether and how to fill a client order, including partial fills, NAB will inform the client of that decision as soon as practicable. NAB will endeavour to fully fill client orders which NAB is capable of filling within the parameters specified by the client, subject to factors such as the need to prioritise among client orders and the availability of the NAB trader's credit line for the client at the time.

## **Market Making**

As a market maker that manages a portfolio of positions for many counterparties with competing interests, as well as considering NAB's own interests, NAB acts as principal and may trade prior to or alongside a counterparty transaction to execute transactions for NAB or to facilitate executions with other counterparties, manage risk, source liquidity or for other reasons. These activities can have an impact on the prices we offer a client on a transaction and the availability of liquidity at levels necessary to execute client orders. They also can trigger stop loss orders, barriers, knock-outs, knock-ins and similar conditions. In conducting these activities, NAB endeavours to avoid undue market impact.

As a market maker, NAB may receive requests for quotations and multiple orders for the same or related currency pairs. NAB 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 order execution, aggregation, priority and pricing. NAB is not required to disclose to a counterparty when the counterparty places an order that NAB is handling other counterparties' orders or NAB orders ahead of, or at the same time as, or on an aggregated basis with, the counterparty's order.

## **Pre-Hedging**

Pre-hedging a client order which has been given, or which NAB is bidding on, has the potential to adversely impact the execution of the transaction. Accordingly, NAB may risk-mitigate or hedge any exposure that would be created by such transaction if instructed to do so by the client or if the client agrees to a pre-hedging strategy proposed by NAB. NAB will only pre-hedge client orders when acting as a principal and will make every effort do so fairly and with transparency.

NAB may pre-hedge actual or anticipated client orders for the purposes of risk management and orderly execution, and in a manner that is not meant to disadvantage the client or disrupt the market. NAB will communicate their pre-hedging practices to their clients before engaging in pre-hedging. If you do not understand our pre-hedging practices for a specific order please raise the matter with your NAB sales contact.

In assessing whether pre-hedging is being undertaken in accordance with the principles above, NAB may consider prevailing market conditions (such as liquidity) and the size and nature of the anticipated transaction.

While undertaking pre-hedging, NAB may continue to conduct on-going business, including risk management, market making, and execution of other client orders. When considering whether pre-hedging is being undertaken in accordance with the principles above, pre-hedging of a single transaction should be considered within a portfolio of trading activity, which takes into account the overall exposure of NAB.

When NAB is acting as an agent, NAB will not undertake pre-hedging.

## **Risk Management**

NAB may undertake risk management activity, including hedging on a portfolio basis, which is commensurate with its trading strategy, positioning, risk assumed, prevailing liquidity and market conditions. Risk management may include trading the same FX product or currencies, trading in correlated products or currencies and establishing derivative positions on any of the foregoing and may also take account of other sources of exposure (such as market dislocations and disruptions). Risk management includes using aggregated unexecuted trade request information in NAB's pricing, as long as such usage does not have the purpose of intentionally disadvantaging a particular customer.

NAB traders may undertake risk management transactions close to a stop loss order trigger level and those transactions may impact the reference price and result in the stop loss order being triggered.

## Information Handling

### General principle

NAB endeavours to be clear and accurate in its communications, and to protect confidential information, to support effective communication and promote an efficient, open, fair and transparent FX market.

NAB's sales, trading and other personnel will consult with each other, including with respect to a counterparty's interests, trading behaviour and expectations, mark-up, spread, and any other relevant factors, on a **need-to-know basis** in order to manage NAB's market-making positions, or NAB's trading positions and the handling of other counterparty transactions.

Protecting the confidentiality and security of counterparty information is an important part of how we do business. NAB has policies, procedures, systems and controls that are designed to protect confidential information. However, NAB makes use of information provided to it as principal in order to effect and risk manage transactions for itself and for counterparties.

Unless otherwise agreed, NAB may use the economic terms of a transaction, but not the counterparty identity, in order to source liquidity and/or execute risk-mitigating transactions. NAB also reports information as required by global regulators.

NAB analyses information about executed transactions on an individual and aggregate basis for a variety of purposes, including counterparty risk management, sales coverage, and counterparty relationship management.

We also may analyse, comment on, and disclose anonymized and aggregated information regarding executed transactions, together with other relevant market information, internally and to third parties, as market colour.

### Permitted External Disclosures

NAB may disclose confidential information about client orders and client trades to agents, brokers and trading platforms to the extent necessary for executing, processing, clearing, notating or settling a transaction; with the consent or at the request of the client or counterparty; where such information is required to be publically disclosed under applicable law, or as requested by relevant regulatory or governmental authorities; as requested by the central bank for policy reasons; and to advisors or consultants on the basis that they maintain confidentiality in the same manner as NAB.

### Disputes and Complaints

If you have a dispute or complaint about an FX transaction or the way we manage our FX business and it is not being addressed by your NAB relationship banker or your NAB markets contact, you may escalate it to the General Manager of Trading in the Fixed Income, Currencies and Commodities.