



National
Australia
Bank

NAB MARKETS

FX SALES AND TRADING PRACTICES

Wholesale Customers

June 2022

This letter clarifies the nature of the trading relationship between you and NAB Markets at National Australia Bank Limited ('NAB') and discloses our practices in relation to spot and forward foreign exchange (FX) dealings when acting as a dealer, on a principal basis in the wholesale FX markets.

You should read this letter in conjunction with the specific terms of service for counterparties utilising NAB's electronic FX trading platforms or third party platforms provided to you by NAB, 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 Foreign Exchange and Derivative Master Agreement, NAB's currency overlay mandate agreement, NAB's general terms of business, any product disclosure statement such as the Australian law FX product disclosure information available [here](#), NAB terms and conditions, and any NAB regulatory disclosure.

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. Information on NAB's Dodd Frank disclosures are available [here](#) and Financial Instruments Directive and Regulation (MiFID II) on NAB's European Regulatory Disclosure [here](#).

GENERAL

NAB's FX Business

NAB's FX sales and trading business is a global business managed through the offices of NAB in several financial centres, including NAB's subsidiary 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 global FX trading books that are passed from time zone to time zone.

The FX Sales team face our customers and provide a range of services, but they do not trade. The services provided include trade ideas, market commentary and distribution of various types of markets related research. The Overlay Solutions Desk provides a range of specialist services to clients that include the execution of FX contracts in accordance with a written overlay mandate agreement.

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 digital execution do not act as brokers or agents for clients.

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, ordinarily when NAB communicates its acceptance of the transaction.

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 can vary on a trade-by-trade basis. NAB acts as a principal when executing such orders, and principals act in their own interests and without obligation to execute an order until both NAB and the client are in agreement. However, NAB shall exercise the discretion reasonably and fairly and in a way that is not designed or intended to disadvantage the client.

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 multiple requests for transactions coming from various 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 regards 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 and other regulatory licences to have in place adequate arrangements to manage conflicts of interest that may arise in respect of its financial services business.

Benchmark Orders – WMR Fix Spot Orders

NAB offers a selection of WMR benchmark orders which are managed by a segregated execution desk. This execution desk operates independently to the NAB FX trading desk and is not permitted to maintain a trading position. These benchmark fix spot orders must be received prior to NAB's internal cut off time for NAB to guarantee the fill. Orders received prior to the cut off time will be filled at the fix including any agreed cost of execution. Orders received post the cut off time will be managed by the FX franchise trading desk on a best endeavour basis. For more information on the WMR/Refinitiv FX benchmark, see the **methodology guide** published by the administrator. NAB may expand and include other fix orders to this order handling process at its discretion. Please contact your NAB FX Sales specialist for further details.

Benchmark Orders – Best Endeavours FX Benchmark Orders

Apart from the fixes mentioned above, NAB does not have a separate desk for other benchmark orders because it is not a submitter or direct contributor to FX benchmarks. Other benchmark orders are managed by FX trading desks. NAB may be involved in handling other, unrelated orders during the relevant fix window. NAB executes these trades on a best endeavour basis and does not guarantee the fix. Administrators of benchmarks calculated by reference to bids and offers in markets during a period may use NAB's bids and offers in the market in accordance with their rules and without NAB being aware that a bid or offer is being used indirectly for the benchmark calculation.

FX Algorithmic Orders

NAB offers a selection of FX Algorithmic (algo) strategies for order execution. These orders are managed by a segregated execution desk independent to the NAB FX trading desk or managed by a third party algo provider. Please contact your NAB FX Sales specialist for further details.

Counterparty Must Make Its Own Assessment

NAB will report market information as accurately as possible. Any market commentary and trade ideas which may include 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 or undertake and should regularly evaluate the execution they receive. Clients should clearly communicate expectations of NAB in connection with the execution of their orders. Clients should make their own assessment of NAB's execution post trade. Please contact your NAB FX Sales specialist if you have further queries.

ORDERS

Customer Orders

You can request quotes, indicative prices, place orders or have a discussion with a NAB FX Sales specialist concerning all expressions of interest by contacting NAB via the Bloomberg 'Persistent Chat', that has been established for your firm, calling a dealer using the contact details in the schedule or via a digital portal such as FX Connect, FX All or 360T. 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 or that it 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.

In handling customer orders NAB will make clear whether the prices we are providing are firm or merely indicative and will provide all relevant disclosures and information to a client before negotiating a customer order. The chat, telephone or digital platform on which the counterparty places an order will refer to the time at which the order was made and will be retained for record keeping purposes.

Order Types

A “take profit” order (T/P), a “stop loss” order (S/L), an order for the fix and other types of orders are explained in the *FX Global Code* (published by the **Foreign Exchange Committee** comprising 21 central banks and various industry associations). 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. NAB will obtain from the client the information required to fully define the terms of a stop loss order, such as the reference price, order amount, time period and trigger. Further, NAB will endeavour to disclose to clients whether risk management transactions may be executed close to a S/L order trigger level and that those transactions may impact the reference price and result in the S/L order being triggered. The *FX Global Code* also explains how NAB and other market participants may exercise any discretion given to NAB as part of an order. More information on how NAB manages certain types of FX orders and common customer expectations can be provided on request.

Pricing, Reference 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. NAB determines a fair and reasonable level or price of final execution based on the bank’s validation and price check process. This is done using a range of third party pricing and NAB’s assessment of market liquidity, volatility and the orderly functioning of the market. A tradeable market must exist for NAB to attempt to execute a client’s order request with other counterparties. NAB will use its discretion to determine a tradeable market price or a specific market low or high price during a trading period. Market high and lows are determined by NAB. NAB will endeavour to communicate a specific high and low market price upon request and as soon as is practical.

The price at which NAB executes a trade with the client will, unless we advise otherwise, be inclusive of a mark-up which is the spread or charge that may be included in the final price of a transaction in order to compensate NAB for a number of considerations which might include risks taken, costs incurred, and services rendered to a particular client over the price at which NAB transacted. Mark-up may impact the pricing and execution of an order linked to or triggered at a specific level. NAB has discretion to offer different prices for transactions that are the same or similar.

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. Orders can be executed manually or electronically, depending on the terms of the order. If NAB is unable to obtain a price on a transaction, then the market disruption and related provisions of the master agreement for financial markets transactions may apply.

Large Orders

Large orders from counterparties 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.

Partial Fills

Once NAB decides 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 within the parameters specified by the client based on prevailing market circumstances, order types, market conventions and any other applicable factors disclosed to 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.

Electronic Trading

A system that allows a market participant to execute trades electronically in the FX Market is called an e-trading platform. Electronic trading activities include operating an e-trading platform, making and/or taking prices on an e-trading platform, and providing and/or using trading algorithms on an e-trading platform.

NAB may provide firm quotes or indicative quotes via automated channels, including but not limited to NAB’s proprietary and third party electronic platforms and direct application programming interfaces.

If we provide a counterparty with access to electronic execution algorithms we do so on the following basis:

- Pricing, speed and likelihood of executing an order can vary depending on the particular algorithm’s parameters, including the E-Trading Platforms where the algorithm directs our hedging activity to inform the pricing of our transactions with the counterparty and whether the algorithm is sourcing liquidity passively or aggressively. NAB’s selection of a default E-Trading Platform or other liquidity source for an algorithm may present certain conflicts of interest.

- By electing to use an electronic execution algorithm, a counterparty assumes the risks generally associated with algorithmic execution and strategies, including but not limited to, market conditions failing to prevent the algorithm functioning as designed, the potential vulnerability to the conduct of other market participants trading on the E-Trading Platforms, and technological or operational delay, failure or malfunction that may directly or indirectly impact the functioning of the algorithm.
- As a result of delays in the dissemination of price updates, market infrastructure, communication and internal processing latencies, short term trading discrepancies may exist between the potentially externally sourced prices utilised by the algorithm and current e-trading platform prices.
- Where NAB makes third party owned and operated Algorithmic trading services available to you, you will remain NAB's client in respect to all executed transactions and you will not become a client of the third party.

Last Look

Like many FX market makers, NAB utilises a last look check on trade requests in order to manage its credit, operational and market risk. Last look is a practice whereby a market participant receiving a trade request has a final opportunity to conduct pre-trade checks to decide whether to accept or reject the request.

The pre-trade check comprises: a) an operational check for counterparty credit availability and validity of order parameters; and b) a price check to protect against technical anomalies, latencies resulting in stale requests and adverse trading behaviours, which compares the trade request price to the current price.

NAB's practice is to preform both checks immediately upon receipt of the request. Price checks are applied on a symmetric basis, such that if a tolerance threshold is exceeded in favour of either NAB or the counterparty, the request will be rejected.

During the last look window, NAB does not undertake any pre-hedging, nor utilise any information from the client's trade request to influence pricing. If you would like to receive more information on how orders are handled and the treatment of client trade requests, please contact your NAB FX Trader.

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' orders, 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 its counterparties and its independent risk management objectives, but it retains discretion with respect to how to satisfy its counterparties' orders including with respect to order execution, aggregation, priority and pricing. NAB executes orders on a first come first serve basis. 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 is the management of the risk associated with one or more anticipated client orders, designed to benefit the client in connection with such orders and any resulting transaction. NAB may pre-hedge actual or anticipated client orders for such purposes and in a manner that is not meant to disadvantage a client or disrupt the market. If you do not understand our pre-hedging practices for a specific order, please raise the matter with your NAB FX Sales Specialist.

In assessing whether pre-hedging is being undertaken in accordance with the principles applicable to NAB, NAB may consider prevailing market conditions 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 applicable to NAB, pre-hedging of a single transaction should be considered within a portfolio of trading activity, which takes into account the overall exposure of NAB. NAB will not pre-hedge when acting in the capacity as an agent.

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, establishing derivative positions on any of the foregoing and may also take account of other sources of exposure such as market dislocations and disruption. 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.

INFORMATION

Information Handling

As a general principle, NAB endeavours to be clear and accurate in its communications, to protect confidential information, 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 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 to effect and risk manage transactions for itself and for counterparties.

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

COMPLAINTS AND DISPUTES

If you have a dispute with us, are dissatisfied with the service that NAB has provided or how we manage our business, please contact your NAB banker or Markets Specialist.