

DISCLOSURE TO COMMERCIAL CUSTOMERS  
REGARDING ANZ'S ROLE IN THE FIXED  
INCOME, CURRENCY AND COMMODITIES  
(FICC) MARKETS

September 2020

## PURPOSE OF THIS NOTICE

Australia and New Zealand Banking Group Limited, through its various branches and affiliates (**ANZ**) operates as a dealer and market maker in the wholesale fixed income, currency and commodities ("**FICC**") markets whilst, at the same time, undertaking and providing a wide range of financial services and products to you.

This notice is for ANZ's Commercial Customers who enter into derivatives and currency transactions (**transactions**) with ANZ. Its purpose is to provide clarity on:

- the nature of ANZ's trading relationship with you;
- how ANZ will transact and communicate with you;
- how ANZ manages certain potential or actual conflicts of interest when undertaking trading activities;
- our role as a dealer and market maker;
- issues you should be aware of relating to interest rate benchmark transition; and
- how we handle your information.

Transactions you enter into with ANZ are on the terms set out in this notice together with any ANZ terms of business we have provided to you, trading documentation (including Terms and Conditions for Trading in Foreign Exchange and Derivative Transactions or ISDA Master Agreement) and specific product disclosure documents. ANZ does not intend to exclude or over-ride any mandatory obligations that it may owe to you under any applicable law or regulation.

ANZ may update this notice from time to time in order to address changing regulatory, industry and other developments.

If you wish to raise a concern or have questions after reading this notice or in relation to our dealings with you, we encourage you to contact your ANZ representative.

## OUR RELATIONSHIP WITH YOU

Unless ANZ otherwise agrees or notifies you before entering a transaction, ANZ will only undertake transactions with you in a principal capacity. This means that we act on an arm's-length basis, for our own account. We do not act as your broker, agent or fiduciary or in any other similar capacity. As such, we do not undertake any of the duties that an entity acting in those capacities would ordinarily perform.

We do not act as your adviser in relation to a transaction unless we have expressly agreed with you in writing to do so. Any statement we make or views we express should not be construed as recommendations or advice unless we provide it to you in a "Statement of Advice". We expect you to independently evaluate and assess the appropriateness and merit of any transaction or strategy based on your own objectives and circumstances. Where appropriate, you should seek your own independent financial or legal advice before entering into a transaction with ANZ or executing a strategy. Where we have expressly agreed to provide you with advice, with respect to the execution of the transactions to which the advice relates, ANZ will only undertake those transactions with you in a principal capacity.

## PLACING ORDERS WITH ANZ

You may submit a request, or instruction to enter into a transaction with ANZ (an **order**) in response to a specific quoted price or, alternatively, you may submit an order with terms that permit ANZ to exercise its discretion as to the price, time or size at which ANZ agrees to enter into the transaction. You may choose to attach parameters to your orders for example, 'limit/leave' orders, or 'stop loss' orders.

Receipt of an order does not commit ANZ to accept or act upon any part or all of the order in any particular way. In taking your order ANZ is indicating its willingness to attempt to enter into a transaction with you within the parameters requested by you. No transaction or contract results from an order until we tell you that we have filled or executed against some or all of the order, at which point you assume the risks associated with the filled or executed order.

If you offer to sell (or buy) securities to (or from) ANZ, your offer is irrevocable although you may specifically set a time and date at which your offer lapses. Until such time as your offer lapses (if at all), ANZ may at its discretion accept your offer and you must sell (or buy) the relevant securities to (or from) ANZ at the offered price. ANZ may, but need not, participate in an issuer's tender / auction or reverse tender / auction. If ANZ does participate, it does so as principal and not on your behalf.

You should take note of the following when you place orders with ANZ:

- ANZ will exercise its discretion in deciding which orders it will accept and execute, when and how it will execute them, including whether to execute all or part of the order, the priority in which the orders are executed and the price. ANZ may return an order to you (i.e. decline to enter a transaction with you) without being required to disclose why. ANZ may refuse to take or execute any order which it believes to be inappropriate or which,

in ANZ's opinion, carries excessive risk or is otherwise intended or has the ability to disrupt the market.

- Generally, orders for spot foreign exchange are aggregated together with other orders placed around the same time for execution whilst orders for other products are dealt with promptly, professionally and in a fair and expeditious manner according to the time they are received.
- ANZ may fill your order from its own inventory or look for market opportunities that satisfy both your order, orders from other counterparties and ANZ's own competing trading interests.
- ANZ is not under any obligation to take or execute any order or to execute an order at any given levels because other institutions have done so or based on any third party's reference to the market. A number of factors are taken into consideration when ANZ exercises its discretion to accept and execute an order, including the prevailing market conditions, ANZ's own risk appetite and its trading strategy.

ANZ will tell you when your order has been completed or executed at which time you will assume the risks associated with the filled or executed order.

ANZ may engage in pre-hedging and hedging activities to manage its risks in connection with your transaction or to enable it to provide a price for your transaction. ANZ exercises its discretion in determining how, when and where to pre-hedge or hedge and in doing so may take into account both internal and external sources of liquidity. When ANZ undertake pre-hedging or hedging activities, it will do so in a manner that is not meant to disadvantage your order or disrupt the market.

Any transactions entered into by ANZ with a view to facilitating your transaction or request will be entered into as principal, could be at different prices from the price of the transaction that ANZ executes with you, may affect the market price of or liquidity of the products you are buying and/or selling and may result in profit or loss to ANZ.

## ANZ'S TRADING AND MARKET MAKING ACTIVITIES

ANZ acts as a 'market maker' in various FICC markets meaning that it offers two-way prices in a variety of currencies, assets or rates on a regular basis, providing liquidity in and for transactions and financial instruments.

As a market maker, ANZ manages a portfolio of positions for multiple counterparties' competing interests, as well as for ANZ's own interests. ANZ

may, in addition to acting as a dealer or market maker, trade for its own account.

In carrying out market making activities, ANZ may:

- trade prior to or alongside your transaction in the same or related transactions, commodities, products, rates or currencies;
- establish derivatives positions for its own account that are the same, similar or opposite to your positions; and
- modify and/or terminate positions or take action for its own account to facilitate executions with other counterparties, to manage risk, to source liquidity or for other reasons.

Generally ANZ is not required to disclose when it is handling other counterparties' orders or its own market making trades ahead of, at the same time as, or on an aggregated basis with, your order.

ANZ's trading and market making activities can have an impact on the prices ANZ is able to offer you and other counterparties and the liquidity available to execute both your order and other counterparties' orders. ANZ's trading activities can also affect the levels at which a benchmark or reference price or rate is set, which can result in triggering stop loss orders, barriers, knock-outs, knock-ins and similar conditions. In conducting trading activities, ANZ will always endeavour to avoid undue market impact.

ANZ has arrangements in place to manage potential conflicts of interest that might arise as a result of the receipt of information by ANZ through its trading or market making activities.

## ALL-IN PRICING, INCLUDING MARK-UP

Unless otherwise expressly agreed, any firm or indicative price you receive from ANZ is an "all-in" price inclusive of any mark-up. Mark-up is the charge or spread (or sales margin) that may be included in the price of a transaction to compensate ANZ for certain risks taken, certain costs incurred and the services provided. The all-in price incorporates:

- the price of the financial instrument including any bid-offer spread;
- costs related to execution of the transaction including venue fees, clearing and settlement fees and other fees paid to third parties involved in the execution of the transaction; and
- sales mark-up.

The mark-up included in ANZ's all-in price is tailored to individual counterparties and is determined based on a broad range of standard commercial factors, including but not limited to:

- (i) product type, size of the transaction, the type of order, trading venues, and

- market conditions such as liquidity and volatility;
- (ii) ANZ's own internal costs such as hedging costs, transaction costs, funding costs, capital costs and overheads; and
- (iii) ANZ's relationship with you, including the nature and extent of services previously provided or anticipated, and your credit history.

As a result, ANZ has discretion to offer different prices to different counterparties for the same or substantially similar transactions, may provide different price quotations by communication method and may change any of its pricing strategies at any time without notice.

Mark up will increase the price you pay for a transaction and for certain types of orders, such as limit orders or stop loss orders, the addition of mark-up may impact the price at which the order is executed.

ANZ is not required to disclose the amount of revenue it is expected to earn from a transaction nor is ANZ required to disclose components of its all-in price for a particular transaction (including any specific amount of mark-up).

ANZ may look for market opportunities that allow it to execute an order at your desired price and also earn a reasonable return for that activity, including addition of mark-up and transaction and execution costs.

ANZ has arrangements in place requiring that the mark-up charged by ANZ is appropriate, fair and reasonable in the circumstances.

## CONFIDENTIALITY AND INFORMATION HANDLING

ANZ takes protection of your information seriously and has in place policies, procedures and controls designed to protect confidential information.

ANZ will not disclose confidential information except to those parties who have a valid reason for receiving it. ANZ will comply with all applicable laws and regulations as well as any agreed restrictions that may limit disclosure.

ANZ may disclose information in certain circumstances that may include disclosure:

- to agents, service providers, market intermediaries or participants to the extent necessary for executing, processing, reporting, reconciling, clearing, novating, or settling a transaction;
- with your consent or at your request;
- where it is required under relevant law, rule or regulations, or as otherwise legally required by a relevant regulatory or public authority, trade repository or central counterparty;

- at the request of a central bank acting for public policy purposes;
- to advisors, consultants or service providers on the condition that they protect the confidential information in the same manner as ANZ does; and
- to its branches, affiliates and service providers globally.

You should be aware that:

- ANZ's sales, trading and relationship management staff may consult with respect to your transactions, trading behaviour, expectations, mark-up, spread, and any other relevant factors, on a "need-to know" basis;
- ANZ may use the economic terms of a transaction in order to source liquidity and manage risk;
- ANZ may analyse and use information about counterparties' executed transactions on an individual and aggregate basis for a variety of internal purposes, including assessing the impact on the market, counterparty risk management, sales coverage and counterparty relationship management; and
- ANZ may also analyse, comment on, and disclose appropriately anonymised and aggregated information regarding trade requests, orders or executed transactions, together with other relevant market information, internally and to third parties as "market colour".

Communications between you and ANZ staff (including to and from ANZ staff land lines and mobile telephones) may be recorded for various purposes including to retain evidence of proposed transactions and so that ANZ can monitor compliance by its staff with ANZ policies.

## INTEREST RATE BENCHMARK TRANSITION

Certain existing international interest rate benchmarks such as interbank offer rates like the LIBORs, EURIBORs and TIBORs (a **Discontinuing Reference Rate**), are subject to ongoing international reform proposals. As a result of these proposals, there is no assurance as to the long-term continuation or consistency of form of any Discontinuing Reference Rate. Where your proposed transaction references a Discontinuing Reference Rate, its discontinuation could materially impact the economics of your transaction and its fitness for purpose. These risks are unlikely to extend to Australian interest rate benchmarks such as BBSW/BBSY at this stage.

It is still not yet certain how alternative benchmark rates for the Discontinuing Reference Rates will be calculated or applied in the context of all types of transaction. In addition to the

discontinuance of certain interbank offer rates, the reforms and other transition processes may:

- result in interest rate benchmarks performing differently than in the past;
- require a need to determine or agree a successor reference rate or risk-free rate (**RFR**);
- result in adjustments being made to the identified fallback RFR related to the term structure methodology and credit spread, and any other applicable modifications;
- potentially result in differences between the terms of your derivatives transactions and the terms of instruments hedged by those derivatives transactions;
- require documentation with respect to the transaction to be updated in respect of references to the Discontinuing Reference Rate to take account of the adjustments noted above, including modifications to fallback provisions (including consequences and trigger events); and/or
- have unforeseen consequences or adverse effects.

Even with spreads or other adjustments, RFRs may be only an estimate or may be an approximation of the relevant Discontinuing Reference Rate, may not be subject to continued verification against the relevant Discontinuing Reference Rate if it is suspended, discontinued or unavailable, and may not result in a rate that is the economic equivalent of the relevant Discontinuing Reference Rate.

As alternative reference rates, adjustment methodologies and fallbacks are developed by the industry, these may not necessarily be in your favour or take into account your interests. Timing of reform and transition initiatives also remain somewhat uncertain and any failure of an alternative reference rate to be developed or gain market acceptance, could adversely affect your transactions and their economics, including the price, value or liquidity of transactions, their usefulness for their intended purpose and the timing or amount of payments or deliveries.

You should ensure you remain abreast of developments.

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