

DISCLOSURE REGARDING ANZ'S ROLE IN THE WHOLESALE FOREIGN EXCHANGE MARKETS

November 2016

Australia and New Zealand Banking Group Limited acting through its various branches and affiliates (ANZ) operates as a dealer and market maker undertaking and providing a wide range of financial services and products to counterparties in the wholesale foreign exchange (FX) market.

The purpose of this notice is to provide clarity on the nature of ANZ's trading relationship with you when undertaking principal-to-principal transactions in the wholesale FX market. This notice explains how we will communicate and transact with you in relation to requests for quotes, requests for indicative prices, discussion or placement of orders and all other expressions of interests that may lead to the execution of transactions. This notice also describes how we manage certain potential or actual conflicts of interest when undertaking such activities.

The nature of obligations owed to you may vary depending on the precise nature of your relationship with ANZ and the jurisdiction(s) in which the relationship is maintained. However, unless otherwise agreed in other applicable terms of business, or as otherwise required by any applicable law or regulation, when you enter into FX transactions with ANZ in the wholesale FX markets it will be on the terms disclosed in this notice.

ANZ is committed to acting with the highest levels of integrity and professionalism in its role as a dealer and market maker in the wholesale FX market. If you have questions after reading this notice or concerning our dealings with you, we encourage you to contact your senior ANZ representative.

NATURE OF THE TRADING RELATIONSHIP

Dealing as Principal

ANZ enters into wholesale FX transactions strictly as principal and for its own account. Accordingly, we will only undertake wholesale FX transactions with you in a principal capacity, including where you act as agent for another principal. Acting in a principal capacity means that we act as an arm's-length party to transactions and we do not act as your agent, fiduciary, financial advisor 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 undertake, unless explicitly agreed in writing with you beforehand.

No recommendations or advice

Any statement made or views expressed by ANZ should not be construed as recommendations or advice. You are expected to independently evaluate the appropriateness of any transaction or strategy based on your own objectives and circumstances as well as your own assessment of the merits of the transaction or strategy. Where appropriate, you should seek your own independent financial or legal advice before entering into a transaction with ANZ or executing a strategy.

ANZ'S TRADING AND MARKET MAKING ACTIVITIES

Counterparty trade requests and orders

A counterparty may submit a trade request in response to a specific quoted price or, alternatively, request ANZ to use its discretion to execute an order. Counterparties may choose to attach parameters to such orders (for example, 'at-best' orders, 'limit/leave' orders, 'stop loss' orders and 'benchmark' orders).

Acceptance of 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 accepting your order ANZ is indicating its willingness to attempt to execute that order. Equally, when ANZ agrees to accept your order at a specified price (such as a limit or stop loss order), ANZ is indicating a willingness to attempt to enter into the transaction at the price you have requested. ANZ may return to you an accepted order at any time and in such circumstances ANZ is not under any obligation to disclose why it is unable to execute your order in whole or in part. ANZ is not under any obligation to execute any orders at any given levels because other institutions have done so or based on any third party's reference to the market.

Unless otherwise expressly agreed, ANZ will exercise its discretion in deciding which orders it will be willing to accept and execute, when it will be willing to accept and execute them, and how it will execute them, including whether to execute all or part of the order. A number of factors will be taken into consideration by ANZ when exercising its discretion to accept and execute an order, including the prevailing market conditions and ANZ's own risk appetite and trading strategy. ANZ may refuse to accept any order which, in its opinion, carries excessive risk or is otherwise intended or has the ability to disrupt the market.

Market making

ANZ acts in the wholesale FX markets as a 'market maker' meaning that it offers two-way prices in a variety of currencies on a continuous basis. Unless otherwise expressly agreed, ANZ retains discretion with respect to how to satisfy its counterparties' trade request, including with respect to order execution, aggregation, priority and pricing. ANZ is not required to disclose to you at the time you submit your trade request that 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.

As a market maker, ANZ manages a portfolio of positions for multiple counterparties' competing interests, as well as for ANZ's own interests. In carrying out market making activities, ANZ may trade prior to or alongside your or another counterparty's transaction or may modify and/or terminate positions or otherwise take action for its own account to facilitate executions with other counterparties, to manage risk, to source liquidity or for other reasons. You should note that, prior to the execution of your or another counterparty's order, ANZ may enter into transactions that hedge against actual or anticipated exposures or may acquire a position to build inventory in anticipation of customer demand. In conducting its trading and market making activities, ANZ may be trading in the same or related FX products or currencies or establishing derivatives positions for its own account that are the same, similar or opposite to the positions of its counterparty. It follows that ANZ's own transactions may or may not be related to any particular counterparty order. 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.

ANZ's trading and market making activities can have an impact on the prices ANZ is able to offer you and other counterparties on a transaction and the liquidity available to execute both your and other counterparties' orders. ANZ's trading activities can also trigger stop loss orders, barriers, knock-outs, knock-ins and similar conditions. In conducting trading activities, ANZ will always endeavour to avoid undue market impact.

All-in pricing

Unless otherwise expressly agreed, any firm or indicative price you receive from ANZ is an "all-in" price that 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 (transaction and execution costs); and
- sales margin or mark-up

ANZ's all-in prices are tailored to individual counterparties and are based on a broad range of standard commercial factors, including but not limited to, market conditions, ANZ's own costs and transactions and ANZ's relationship with the counterparty, including the nature and extent of services previously provided or anticipated. ANZ has discretion to offer different prices to different counterparties for the same or substantially similar transactions. For certain types of orders, the addition of sales margin 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.

You should note that actual execution prices do not imply that ANZ held, acquired, or would acquire, inventory to complete the transaction at the specified price level or that there exists a tradable market at that specified price level. 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 to the order.

Electronic trading platforms

ANZ provides indicative pricing in spot and forward FX markets via ANZ Direct API and various third party Multi-Dealer platforms. When a trade request is submitted in response to ANZ's indicative pricing, ANZ may accept or reject the trade request at its sole discretion based on a number of automatically applied pre-trade controls, including credit checks, internal risk limits and a process known as "last look".

"Last look" is a standardised verification and protection mechanism for electronic pricing. It is used to identify whether trade requests are made at prices that are within ANZ's price tolerance for execution. This control may be applied immediately upon receipt of a submitted trade request or after a brief time delay. In each case, the refreshed price is compared to the trade request price and if the price has not moved in either direction by more than the defined price tolerance, ANZ will accept the trade request. If the refreshed price differs from the trade request price by more than the price tolerance, ANZ will reject the trade request. The assessment is made immediately, or after a short time delay, and is applied symmetrically, which means that the rejection logic is applied for price movements in either direction.

The purpose of "last look" is primarily to reduce the risk of ANZ trading on a stale price due to latency, technology constraints, and to protect ANZ against certain trading behaviour such as aggregation, order splitting or previous quote selection, and as a risk control. By mitigating these risks, ANZ can offer tighter electronically streamed prices than would otherwise be the case. ANZ applies "last look" in accordance with its internal policies and procedures to ensure that the mechanism operates in accordance with its intended purposes as set out above.

Orders relating to FX benchmark prices at specified fixing times

You may submit an order for execution against an FX benchmark. FX benchmark prices are determined by unaffiliated third parties. Transaction based FX benchmarks are based on actual transaction information in the relevant market for the specified currency pair during a defined time period immediately before and after the relevant time of day (commonly referred to as the "Fixing Window"). Contribution based FX benchmarks are determined from estimates of market exchange rates contributed by a number of appointed banks. ANZ may be one of the banks appointed to contribute to some benchmark prices.

When ANZ executes your order for execution against a benchmark, ANZ will be entering into the transaction as principal. ANZ therefore commits to executing the requested transaction(s) at the relevant rate of a yet unknown fix price prior to the actual fixing of the relevant rate, which is determined after the completion of the Fixing Window. The acceptance and execution of these orders creates additional risks to ANZ. To mitigate those risks ANZ may engage in risk management activities such as hedging of transactions prior to, during and post the Fixing Window.

The accumulation of these orders together with activities of other market participants may also lead to a concentration of substantial volume of transactions for execution against a certain benchmark, and this may impact market liquidity and, therefore, pricing. ANZ will engage in risk management activities to mitigate this risk where possible; however, you should be aware that the aggregate market activities at certain benchmark prices may have an impact on the benchmark prices at those times.

ANZ may also engage in other transactions in the ordinary course of business activities that are unrelated to benchmark prices, including market making activities, sourcing liquidity, hedging or mitigating exposure prior to execution of counterparties' orders. These activities may require execution of transactions during the Fixing Window, or at other times that may impact transactions relating to a benchmark fixing.

ANZ has arrangements in place to manage conflicts of interest that may arise from ANZ's participation in FX benchmark activities.

INFORMATION HANDLING

ANZ takes protection of counterparty information very seriously and ANZ has in place policies, procedures and controls designed to protect counterparties' confidential information.

Counterparty and trading information

ANZ will only disclose counterparties' confidential information externally in certain circumstances including:

- to agents, market intermediaries (such as brokers or trading platforms) or other market participants to the extent necessary for executing, processing, clearing, novating, or settling a transaction;
- with the consent of, or at the request of, the counterparty;
- where it is required to be publicly disclosed under relevant law or regulations, or otherwise requested by a relevant regulatory or public authority, trade repository or central counterparty; and
- at the request of a Central Bank acting for public policy purposes.

As a result of ANZ's businesses operations and processes ANZ may disclose counterparty information internationally, including between ANZ branches, its affiliates and service providers globally.

In accordance with its policies, procedures and controls, ANZ will only internally communicate counterparties' confidential information to those individuals who have a valid reason for receiving such information and counterparties should be aware that:

- ANZ's sales, trading and relationship management may consult with respect to a counterparty's interests, 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; and

- 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.

Market colour

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".

About this notification

This notice supplements any other agreements or disclosures regarding FX transactions in the wholesale market that ANZ has provided or may provide to you, including any master agreement for financial instruments entered into between us and any applicable terms of business which apply to business conducted between you and ANZ's branches and affiliates.

This communication is also available at <https://institutional.anz.com/about-anz-institutional/disclosures>. It may be updated from time to time in order to address changing regulatory, industry and any other applicable developments.

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