DISCLOSURE APPLICABLE TO CLIENTS TRADING FOREIGN EXCHANGE ELECTRONICALLY WITH NATWEST MARKETS

Introduction

This disclosure provides further information for clients in relation to the spot foreign exchange (FX) transactions they enter into with NatWest Markets using an electronic channel (either a NatWest Markets platform such as Agile Markets, a third party platform or an application programming interface (API)).

Note that this disclosure does not apply to payment services which involve an FX conversion or to the NatWest Markets FXmicropay service.

This disclosure is separated into two parts as follows:

> **Part A** – this provides information (in relation to spot FX transactions) on NatWest Markets' use of 'last look'; why and how NatWest Markets uses price tolerance to assess whether to execute a transaction; and NatWest Markets' use of price improvement. This information is relevant to all clients and trading referred to in the introduction to this disclosure.
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> **Part B** – this provides information on NatWest Markets' use of latency buffers in relation to spot FX transactions (including the spot element of other FX transactions). Note that latency buffers are not applied to all clients or types of client connection. For example NatWest Markets does not apply latency buffers to any client in respect of its trading over the NatWest Markets proprietary platforms known as Agile Markets. In addition, NatWest Markets does not apply latency buffers to clients it has classified as being MiFID Retail clients in respect of trading over a direct disclosed API.

Note that although this disclosure applies to spot FX trading only, NatWest Markets may, in its discretion, use last look, rate validation and price improvement in respect of other foreign exchange financial instruments (including forward outrights, swaps, options and non-deliverable forwards).

The information in this document is current as of the date of this disclosure. Any updates to this disclosure will be communicated on the NatWest Markets website (www.natwestmarkets.com) and you should therefore check that website regularly.

Please get in touch with your normal NatWest Markets FX Sales contact or other usual Sales representative where applicable if you require further information in relation to this disclosure.

Part A: information on last look, price tolerance and price improvement – for spot FX transactions

1. Last Look

Unless expressly stated or agreed otherwise in writing, FX rates provided by NatWest Markets are indicative and subject to review by NatWest Markets before acceptance. When NatWest Markets receives a transaction request from a client, typically NatWest Markets performs a number of automated checks before deciding whether to accept that request and enter into a transaction. Such checks are determined by NatWest Markets in its discretion and are known as a 'last look' at a transaction request. These checks may include a check that the transaction details contained in the request are appropriate from an operational perspective (including checks against the currency pair, transaction size, trading tenor and client set up details) and that there is sufficient available credit, as well as confirmation that the requested FX rate remains valid (known as rate validation).

2. Rate Validation and Price Tolerance

NatWest Markets may perform rate validation to check the FX rate requested by the client against the latest FX rate at which NatWest Markets is prepared to trade. NatWest Markets considers that this validation is an appropriate risk control to take account of, among other things, market volatility and latency, given that the FX rate at which NatWest Markets is prepared to trade may change in the period between the client making the transaction request and that request being received by NatWest Markets.

NatWest Markets performs rate validation through the application of price tolerance. A tolerance is a percentage difference from the latest applicable FX rate at which NatWest Markets is prepared to trade. Except as described below and unless otherwise agreed with the client, a symmetrical price tolerance is used. This means that the tolerance applied is the same regardless of whether the FX rate move is favourable or unfavourable to NatWest Markets. Therefore, a transaction request will be accepted if the FX rate on the incoming request is within tolerance, regardless of whether the FX rate has moved for or against NatWest Markets (subject to other validation checks, such as credit checks).

A transaction request will be rejected if either of the following conditions is met:

- the FX rate on the incoming transaction request has moved against NatWest Markets and is outside price tolerance; or

- the FX rate on the incoming transaction request has moved in favour of NatWest Markets and is outside price tolerance, unless (i) price improvement (as described below) is supported for the client; or (ii) price improvement is not supported and the client has opted out of symmetrical price tolerance.

The price tolerance range is determined by NatWest Markets in its discretion and differs by client type. In setting tolerance levels, NatWest Markets has regard to factors including the nature of the client connection, their execution methodology and their MiFID classification.

For the majority of modes of connection (including trading over Agile Markets), NatWest Markets is able to offer symmetrical price tolerance. However, for some spot FX trading, NatWest Markets does not offer symmetrical price tolerance due to current technology limitations. This means that, where tolerance is applied, a transaction request will still be rejected where the FX rate on the incoming transaction request has moved against NatWest Markets and is outside price tolerance. However, where the FX rate on the incoming transaction request has moved in favour of NatWest Markets, no price tolerance will be applied to reject the transaction due to the price movement. Note however that the request may still be rejected due to the outcome of other checks, such as credit checks.

3. **Price Improvement**

NatWest Markets may, in its discretion, improve the FX rate requested by the client should the FX rate at which NatWest Markets is prepared to trade improve for the client in the period between the submission of a transaction request by the client and the acceptance of such request by NatWest Markets. This is known as price improvement and results in an improved FX rate for the client in comparison to the FX rate originally requested.

If price improvement is applicable, typically NatWest Markets will give the full improvement of the FX rate beyond the level of tolerance applied to the transaction request. NatWest Markets may review the approach to offering price improvement in its discretion.

Note that price improvement is not supported for all clients or products, for reasons which include current NatWest Markets or client-side technology limitations. Clients may also request that price improvement is not applied to their trading.

4. Activity during the last look period

NatWest Markets is not active in the market in relation to an incoming transaction request unless and until the transaction has successfully completed rate validation. If NatWest Markets is active in the market prior to rate validation, this will be related to other accepted transactions, independent of the transaction being processed. Where a transaction request does not pass rate validation, NatWest Markets is not active in the market in relation to that request either prior to or following rejection. Occasionally, booking errors may cause a transaction to be rejected after successful rate validation.

Any related activity in the period prior to rate validation is limited to individual third party liquidity providers, in respect of the solution outlined in paragraph 5, rather than the wider market.

5. **Third party liquidity providers**

NatWest Markets may enter into agreements with third party liquidity providers (each a "liquidity provider") to use the liquidity provider's price in the price it distributes to the client in currencies NatWest Markets determines from time to time. This solution is used to improve the price that NatWest Markets is able to offer to the client.

If the client submits a transaction request at the price generated using the liquidity provider's price, NatWest Markets will send a corresponding transaction request for the same volume to the liquidity provider who may conduct a 'last look' at the transaction request. NatWest Markets is not active in the wider market in relation to this transaction request. If the liquidity provider accepts the transaction request, NatWest Markets will also accept the client's transaction request, resulting in a transaction between NatWest Markets and the client, and a corresponding transaction between NatWest Markets and the liquidity provider. If the liquidity provider rejects the transaction request, NatWest Markets may nevertheless choose to accept the transaction with the client, depending on the outcome of its own price tolerance checks.

Any liquidity provider supporting this solution adheres to the FX Global Code of Conduct by signing the Code's Statement of Commitment. They also confirm to NatWest Markets that they are not active in the market in relation to a transaction request prior to acceptance of that request, and are not active in the market either prior to or following rejection, in relation to rejected transaction requests. NatWest Markets does not disclose the identity of the client to the liquidity provider and puts in place confidentiality obligations which restrict the use of information by the liquidity provider.

Part B: information on latency buffers - for spot FX transactions

1. Latency buffers

A latency buffer (also known as a 'hold period') is an enforced time period following receipt of a transaction request after which NatWest Markets checks its current FX rate against the FX rate requested by the client when performing rate validation.

2. Difference between the last look period and the latency buffer period

In contrast to last look (as described in part A of this disclosure), the latency buffer period is only relevant to rate validation. The last look period is a longer period, being the total time between NatWest Markets receiving a transaction request and sending a response back to the client, not including any client-side latency. During this time period other checks, in addition to rate validation, may be performed. This means that a latency buffer period (if applied) is only one part of the overall last look period.

3. Rate validation where latency buffers are applied

Rate validation may be undertaken whether or not a latency buffer is applied. Where a latency buffer is applied, NatWest Markets only performs rate validation after the latency buffer period. It is important to note that, as a result of this and because the FX rate at which NatWest Markets is prepared to trade may move during the buffer period, transactions that would have been accepted at the beginning of the latency buffer may be rejected. Equally, transactions that would have been rejected at the beginning of the latency buffer may be accepted. However, the FX rate moves that result in this will not be caused by the transaction being processed. Where a latency buffer is not applied, rate validation may still be undertaken but there is no enforced time period before such validation takes place.

4. Why NatWest Markets uses latency buffers

NatWest Markets uses latency buffers to enable it to manage its exposure to market risk appropriately when dealing with clients with particular characteristics. Currently NatWest Markets considers a number of factors when determining whether to apply a latency buffer, including the following:

- nature of client connection. Latency buffers are more likely to be applied to modes of connection which have limited setup configurability for NatWest Markets, such as some third party platforms. NatWest Markets does not apply latency buffers to any client in respect of its trading over the NatWest Markets proprietary platforms known as Agile Markets. In addition, in the majority of cases NatWest Markets does not apply latency buffers to clients using a direct disclosed application programming interface (API);

- nature of client execution methodology. Latency buffers are more likely to be applied to clients who transact with a number of liquidity providers or on a number of venues concurrently, for example through the use of an aggregation service;

- immediate market moves after client transaction requests are accepted. NatWest Markets may identify such market moves by assessing a large number of transactions. Where such market moves are common, NatWest Markets is more likely to apply latency buffers.

Where used, the latency buffer gives NatWest Markets an additional period of time after which NatWest Markets will validate the FX rate at which a transaction request was made, with this validation being performed at the end of the latency buffer period and being the final step of the last look process.

Clients may request confirmation as to whether NatWest Markets applies latency buffers to their trading. If latency buffers are applied, upon client request NatWest Markets will discuss the reasons for their usage (as outlined above) and alternative options which could lead to their removal.

5. Whether NatWest Markets applies latency buffers to all clients

NatWest Markets does not apply latency buffers to all clients. Whether latency buffers are applied will depend on a number of factors, as further explained in paragraph 4 above. For example, NatWest Markets does not apply latency buffers to MiFID Retail clients in respect of trading over a direct disclosed API. Nor does NatWest Markets apply latency buffers to trading over its proprietary trading platforms known as Agile Markets.

6. What information does NatWest Markets make available about latency buffers, response times and acceptance ratios?

Where NatWest Markets does apply a latency buffer, this buffer period is no longer than 25 milliseconds. NatWest Markets may change this maximum period in its discretion and (other than as described below) any increase to this period will be communicated through a revised version of this disclosure. NatWest Markets may however, with or without notice, increase this maximum period temporarily to take account of events which have or may have a significant market effect.

NatWest Markets can provide clients with the following information on request:

- monthly average response times in respect of a large sample of clients. These show the average time that it takes for NatWest Markets to respond to a transaction request, measured from the point at which the request is received by, to the time when the response leaves, the NatWest Markets eFX infrastructure. Such information is non-client specific and does not distinguish between requests where a latency buffer is applied and those where it is not. These response times do not include the time period when the transaction request or response is passing through the infrastructure of the client or third party venue nor is it a guarantee that every transaction request will be processed within these timeframes;

- monthly average request acceptance ratios in respect of a large sample of clients. This information will distinguish between clients for whom a latency buffer is applied and those for whom it is not;

- the current duration of the latency buffer applied to that client’s trading (if any); and

- data relating to average response times and average request acceptance ratios, specific to that client.