

Systematic Internaliser Commercial Policy



Friday 29 December 2017

Introduction

NatWest Markets Plc (NWM) has announced that it will be a systematic internaliser (SI) in certain instruments as set out below for the purposes of MiFID II¹ with effect from 3 January, 2018. This document is NWM's regulatory disclosure in respect of its Commercial Policy and sets out the terms on which NWM as an SI will:

- A. Make public SI-eligible firm quotes (defined below), in instruments for which there is a liquid market, in accordance with Art. 18(1) MiFIR².
- B. Disclose SI-eligible quotes to clients for informational purposes, in illiquid instruments, in accordance with Art. 18(2) MiFIR.
- C. Make SI-eligible firm quotes accessible to all clients, in accordance with Art. 18(5) MiFIR (subject to certain exclusions / conditions as set out in sections C and D).

Definition of an SI-eligible quote

A quote is deemed to be SI-eligible if it is a quote in respect of an instrument that is designated as "traded on a trading venue" (TOTV), for which NWM is an SI in either the instrument itself (for example, bonds) or the class of financial instruments of which it is part (for example, OTC derivatives), and where the size in which the quote is provided is below the relevant size specific to the instrument (SSTI).

Please note that this document will be reviewed periodically and may be subject to updates and changes. Whilst material changes to the Commercial Policy will be communicated to all clients, minor or non-material changes will not be subject to notifications. Clients are advised to check NWM's Regulatory Disclosures website:

<https://www.natwestmarkets.com/natwest-markets/disclosures.html> for the latest version of this document.

A. Obligation to make firm quotes public

1. NWM considers quotes in scope for this obligation where:
 - a. The client has requested a firm quote directly from NWM (i.e. not via a trading venue³), and NWM has agreed to provide a quote; and
 - b. The quote is SI-eligible, and the instrument has been deemed liquid; and
 - c. Any resulting trade would not be in-scope of the MiFIR Derivatives Trading Obligation (NWM will not provide SI-eligible quotes where the resulting trade would be subject to the DTO).
2. A quote shall be considered to be "firm" for the purposes of Article 18, where, once accepted by the client, it is capable of resulting in a legally binding transaction, subject to any last look.
 - a. Last look shall be applied in line with NWM's procedures. The circumstances in which last look may be applied in various scenarios are provided to clients as part of the client on-boarding process and may be further updated from time to time.
3. NWM shall make quotes public via its chosen Approved Publication Arrangement (APA), Tradeweb. Quotes shall be transmitted to Tradeweb for the purposes of publication, subsequent to being provided to the client, but prior to any trade execution taking place.
4. The quote made public shall be an "All-In" price consisting of the Total Consideration price plus any client-specific considerations, for example sales margin and capital or funding charges.

¹ Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.

² Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.

³ Being an EU or equivalent third country regulated market, MTF or OTF.

5. NWM aims to respond to all requests for quotes from clients but reserves the right to refuse the provision of a quote in its sole discretion in accordance with Art. 18(1)(b) MiFIR.
 - a. In times of exceptionally busy market activity, NWM may require that all Requests for Quote be submitted via a MiFID trading venue, where clients have the ability to do so.
6. In accordance with Art. 18(3) MiFIR, NWM reserves the right to update quotes at any time with another SI-eligible quote, and also to withdraw quotes under exceptional market conditions.

B. Obligation to disclose firm quotes in illiquid instruments upon request

1. This obligation applies where a client has requested to see the previous SI- eligible NWM quote in a given illiquid instrument.
2. These quotes will be provided for informational purposes only and NWM shall limit disclosure to quotes provided within the preceding three months.
3. NWM shall provide this information to the requesting client as soon as practicable.

C. Obligation to make firm quotes in liquid instruments available to other clients

1. Where a given SI-eligible quote has been published in accordance with Article 18(1) MiFIR, and the quote has not been withdrawn or updated, and is still valid (see Section D – Quote Validity), NWM will undertake to enter into transactions for that quote in accordance with Art. 18(6) MiFIR subject to the following conditions and the provisions of this Section C:
 - a. Where the quote is an All-In price which includes elements which are specific to the counterparty originally requesting the quote, such pricing will only be executable for clients sharing the same counterparty-specific characteristics as the requesting client.
 - b. Client-specific components are determined on non-discriminatory and objective criteria that take into consideration factors associated with counterparty risk (e.g. CVA), or the final settlement of the transaction.
 - c. Other client-specific charges include, but are not limited to, credit and funding valuation adjustment (CVA and FVA), pricing adjustments derived from the terms of the relevant Credit Support Annex (CSA) or any other collateral or credit support documentation, capital charges and liquidity requirements as a result of entering into the transaction, wrong way risk charges (WWR) and additional charges for NWM's financial resources, as determined by NWM acting in good faith in accordance with its internal policies and guidelines (and reasonably accepted market practice).
2. These quotes will be accessible by clients of NWM via Tradeweb's "Dealer Page" for NWM, subject to compliance with any Tradeweb terms and conditions.
 - a. Clients that wish to trade on quotes published on Tradeweb, should contact their usual NWM Salesperson.
3. Limits may be imposed on the validity of these quotes, as per Section D.
 - a. Subject to any quote validity considerations, quotes shall auto-expire after 5 minutes.
4. The initial requesting client will be privileged with respect to execution of any SI- eligible quote.
5. In accordance with Art. 18(9) MiFIR, NWM reserves the right to offer price improvement on SI-eligible quotes, in justified cases, provided that the price falls in a public range close to market conditions.

D. Quote Validity/Transaction Limits

1. ESMA guidance⁴ clarifies that SI-eligible quotes should remain valid for a reasonable period of time, allowing clients to execute against them.
2. Notwithstanding the factors detailed in Section C – Obligation to make firm quotes available to other clients, which may limit price availability to a single requesting client, factors determining the validity period for firm quotes include but are not limited to:
 - i. Available inventory (e.g. in the case of bonds).
 - ii. Market movements (volatility of instrument).
 - iii. Exceptional market conditions.
 - iv. The latency characteristics of the means by which quotes are requested by a client (e.g. Voice vs. electronic streaming).

⁴ Question 5(c) of Section 7 of ESMA's Q&A on transparency topics