

BNZ Markets
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New Zealand

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BNZ Sales and Trading Practices in the Wholesale Market

This document sets out our current practices in relation to dealing with you as a wholesale customer in foreign currency – spot and forward foreign exchange (“FX”), and fixed income and commodities (“Financial Products”). We may update this letter from time to time and the most up-to-date version will always be available on our website. In the event there is an inconsistency with this document and earlier versions of it, the document currently showing on our website will govern.

It explains how we will:

- communicate and transact in relation to the execution of transactions of Financial Products;
- handle expressions of interest in transactions of Financial Products; and
- manage potential or actual conflicts of interest in our dealing activities.

Please note that we have updated the Market Making and Pre-Hedging section. These updates reflect evolving industry standards, regulatory expectations, and our commitment to greater transparency in how we manage our risk and execute transactions.

You should read this letter in conjunction with the specific terms of service for counterparties utilising BNZ’s electronic FX trading platforms or third party platforms provided to you by BNZ, copies of which are available upon request. This letter supplements, and is in addition to, any other disclosures and agreements that BNZ may provide to, or agree with, you including any master agreement for financial markets transactions, such as the ISDA Master Agreement, BNZ’s Master Agreement for Foreign Exchange and Derivative Transactions (MAFXDT), BNZ’s Currency Hedging Services Agreement, and any other terms and conditions applicable to BNZ products or services.

This document is provided for information purposes only and is not intended to constitute any financial or legal advice. It is not intended to exclude any mandatory obligations that we owe you under any applicable law or regulation, or override any contractual terms we have with you. The terms of those obligations will vary depending on the precise nature of your relationship with us.

Sincerely



Philippa Fourbet
General Manager, Markets
Bank of New Zealand

BNZ Sales and Trading Practices in the Wholesale Market

BNZ'S Markets Business

BNZ's Markets sales and trading business is part of the National Australia Bank Limited group's (NAB Group)¹ global markets business.

- BNZ's traders operate as dealers and market makers in the wholesale markets, engaging in price quoting, order taking, trade execution and other trading related activities.
- The BNZ sales team face you and provide a range of services, but they do not trade. The services provided by the BNZ Markets sales team include the execution of financial markets products, market commentary, providing trade ideas and related research which includes strategy, technical analysis, political and economic research.
- The Currency Overlay Solutions team provides a range of specialist services to clients which include the execution of foreign exchange contracts in accordance with a Currency Hedging Services Agreement between you and BNZ.
- BNZ Markets traders and sales employees are accredited members of the NZ Financial Markets Association.

Relationship

BNZ acts as principal on a full risk transfer basis when executing a transaction. *Risk transfer* means that BNZ takes on market risk in connection with an order. The point at which that risk transfer occurs is when the transaction is executed between BNZ and you. BNZ does not act as broker, agent, fiduciary, financial advisor or in any similar capacity on your behalf, unless otherwise explicitly agreed in writing.

You may grant BNZ discretion as to how it executes trades, both with respect to the timing and the level of execution, the extent of which can vary on a trade-by-trade basis. BNZ acts as principal when executing such orders. As a principal, BNZ acts in its own interest and without an obligation to execute an order until both BNZ and you are in agreement. However, BNZ shall exercise any discretion granted to it 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 with market participants like BNZ taking different roles with regard to that execution. Regardless of their respective roles in executing a transaction, market participants (including BNZ and its clients) are expected to behave with integrity and to support the effective functioning of the wholesale markets. BNZ as a market participant may handle a client order in one instance and place an order with other market participants in another.

BNZ traders manage large "books" of orders, with orders coming from a number of sources daily. For example, in the management of client orders, a "buy trade" with you 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. BNZ traders may also use their limits to position the overall portfolio in accordance with the market views of the BNZ trader.

BNZ traders may have divergent and conflicting interests to you. For example, BNZ may from time to time act in several capacities with regard to financial products, such as market maker (as detailed further below), calculation agent or hedge provider. Such functions can allow BNZ to take different positions to you, which could raise potential conflicts of interest. BNZ and NAB Group have policies and procedures to mitigate risks arising from conflicts of interests.

Other parts of the BNZ business may act in different capacities with respect to the counterparty. BNZ is obliged under its New Zealand Financial Services Provider licence and other regulatory licenses to have in place adequate arrangements to manage conflicts of interest that may arise in respect of its financial services business.

¹ National Australia Bank Limited (NAB) is not a registered bank in New Zealand, and is not authorised to offer the products/services described in this document in New Zealand.

You Must Make Your Own Assessment

BNZ endeavours to report market information as accurately as possible. Any market commentary and trade ideas are based on views held by the person providing the commentary or suggesting the trade idea. However, market commentary and trade ideas originating from the BNZ sales or trading teams should not be construed as independent research nor financial advice. They are provided on the basis that you are not relying on the information within it to make your decisions. BNZ strongly recommends that you seek independent legal and financial advice prior to entering into any transactions, and requires that you independently evaluate the appropriateness of any transaction.

You should be aware of the risks associated with the transactions you request and undertake, and you should regularly evaluate their execution. You should clearly communicate expectations of BNZ in connection with the execution of your orders. You should make your own assessment of BNZ's post trade execution. Please contact your BNZ Markets Specialist if we are not meeting your expectations.

Customer Orders

You can request quotes, indicative prices, place orders or have a discussion with a BNZ dealer concerning all expressions of interest by contacting BNZ 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. 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 be retained for record keeping purposes.

Where BNZ receives an instruction from you to carry out an order in a specific manner, BNZ will endeavour to carry out that order in accordance with your instructions. However, BNZ may, in its sole discretion, refuse to accept any such instructions from you.

When BNZ accepts an order that includes a price (such as a limit order) BNZ will seek to fill such order, but its ability to do so may be limited by market conditions, for example price volatility and low volumes. If BNZ is working an order, BNZ will let you 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, BNZ will exercise discretion 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.

Working an order does not mean or imply that BNZ is acting as an agent. It means that BNZ will monitor your requested target level in the market. The order may be cancelled by either party before the execution of such order is concluded. As such, BNZ's receipt of an order, or any indication of working an order received from you, does not create a contract between you and BNZ that commits BNZ to execute any or all of the order in any particular way. BNZ will accept orders on the basis that sufficient credit lines are in place.

Partial Fills

BNZ will endeavour to fully fill client orders. When BNZ makes a decision on whether and how to fill an order, including partial fills, BNZ will inform you of that decision as soon as practicable. Factors affecting the ability to provide a complete fill include:

- (a) availability in the market of adequate inventory to satisfy aggregate orders at a given price. An order will only be given a partial fill if BNZ have not been able to execute the aggregate volume required at the requested price; and
- (b) availability of credit lines at the time of execution.

Order Handling

When handling your orders BNZ will:

- strive for a fair and transparent outcome;
- communicate honestly and clearly;
- make clear whether the prices quoted are firm or merely indicative;
- discuss with you how to manage an order which has the potential to disrupt the market; and
- time-stamp transaction executions.

Market Execution

There is no single market, and different electronic markets, or venues, may show different prices at a given moment. Trades may be executed directly between two traders in the market, via 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. BNZ traders use discretion to determine which trading market to use. Similarly, the traders may refer to price and volume information from a number of venues to determine whether to fill your order. Factors that may affect execution may include positioning, prevailing liquidity, market conditions and trading strategies.

There is potential for orders to be executed manually or electronically, depending on the terms of the order. In some circumstances, BNZ may be unable to obtain a price for a transaction or make or receive a payment in the manner agreed. In these circumstances, the contractual terms related to market disruption in your trading agreement for FX or Financial Products transactions with BNZ (such as the ISDA Master Agreement or MAFXDT) may apply.

Large Orders

Large orders from clients may require management by BNZ 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 BNZ. For transactions of this nature or size, BNZ may set-up an Information Wall, where the appropriate employees would be crossed ².

Last Look

Like many market makers, BNZ uses 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.

BNZ's practice is to perform both checks immediately upon receipt of the request. The price check may, at BNZ's discretion, be subsequently repeated after a brief delay. If applicable, the total delay is typically within 10-100ms, and is only applied by exception dependent on the platform and historical trading characteristics. Price checks are applied on a symmetric basis, such that if a tolerance threshold is exceeded in favour of either BNZ or the counterparty, the request will be rejected.

During the last look window, BNZ does not undertake any pre-hedging, nor use 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 Markets Specialist.

Market Making and Pre-Hedging

As a market maker and liquidity provider in Financial Markets Products, BNZ manages a portfolio of positions from multiple customers' competing interests, as well as BNZ's own interests. BNZ trades in a principal capacity and may be, prior to or during the execution of your order, actively trading in financial markets related to your order.

BNZ may undertake different types of trading activity including "Market Making" and "Price Sensitive Transaction Pre-Hedging" which, depending on your jurisdiction, may be defined as "pre-hedging" activity. Market Making may involve "pre-hedging" portfolios on an aggregated portfolio basis, while Price Sensitive Transaction Pre-Hedging is pre-hedging activity conducted in respect of a specific transaction(s) from an individual customer to manage the execution and risks associated with that order.

² An Information Wall is a concept of separation between groups, departments, or individuals within the same organisation— a physical or virtual barrier that prohibits communications or exchanges of information that could cause conflicts of interest. To "cross" the Information Wall means to be separated from those without access to the information.

Market Making

Market Making activity undertaken by BNZ includes Inventory Management, Price Discovery and Risk Management Activity each as described below:

- (A) Inventory Management. To assist BNZ in managing the market risk it reasonably expects to face following the execution of anticipated customer orders, BNZ may:
- (i) following a price request from one or more customers; or
 - (ii) based on its own independent forecasting, engage in trading activity in financial markets using:
 - (1) aggregated unexecuted price request information (which may include information related to your price request); and
 - (2) other market information (whether publicly available or BNZ's own proprietary information), to manage its reasonably expected near term demand of Financial Markets Products ("Inventory Management").

Inventory Management is conducted on a portfolio basis with the view of facilitating anticipated customer orders and commensurate with BNZ's trading strategy, positioning, risk assumed, prevailing liquidity and market conditions. Inventory Management is undertaken by BNZ in its principal capacity and not as an agent for you and may include trading the same product or currencies, trading in correlated products or currencies or establishing derivative positions on any of the foregoing. The price of any Inventory Management transaction entered into by BNZ may be different to the price BNZ is willing or able to offer you and may result in a profit or loss to BNZ.

Factors which may impact whether BNZ undertakes Inventory Management following a price request from you include: (i) the size of your request relative to the available market liquidity, (ii) BNZ's then current available inventory in the financial products relevant to your request, and (iii) price requests and orders received from BNZ's other customers at or around that time.

- (B) Price Discovery. For products which relate to illiquid financial markets, it may not be possible for BNZ to provide you with a price without first undertaking trading activity in related markets to ascertain the 'true' price and liquidity of those markets and BNZ's ability to execute your requested volume ("Price Discovery"). Price Discovery is conducted in order to facilitate your order and improve the quality of execution. Given the 'observable' pricing and liquidity data in illiquid markets is often stale or outdated, Price Discovery may have a material impact on the market price and liquidity and consequently the price and/or volume we are able to offer you. Obtaining requests for quotes/RFOs for illiquid products from multiple liquidity providers may compound the impact that Price Discovery has on the market and consequently the price we are able to offer you.
- (C) Risk Management Activity. Following the execution of other customer orders or to manage its own sources of risk, BNZ may be engaged in hedging and other trading activity in financial markets to manage its assumed risk position ("Risk Management Activity"). BNZ may be engaged in Risk Management Activity prior to or during the execution of your order in financial markets to which your order relates and such activity may include trading the same product or currencies, trading in correlated products or currencies or establishing derivative positions on any of the foregoing and may also take account of other sources of exposure such as market dislocations and disruption.

Market Making activity conducted by BNZ may have an impact (positively or negatively) on the price BNZ is able to offer you and/or the availability of liquidity at levels necessary to execute your order. If you have any questions regarding BNZ's potential Market Making activity we would be happy to discuss with you further. Please contact your BNZ Markets specialist for further details.

Price Sensitive Transaction Pre-Hedging

- (A) Price Sensitive Transactions ("PSTs") are proposed transactions, or a group of transactions which, if executed, would likely exceed the available market liquidity in the relevant or related financial products at the time of execution and are likely to have an impact on the level of the relevant or related financial markets. When BNZ receives a price request or order that it believes may constitute a PST, BNZ will take extra precautions with respect to information handling, recording keeping and conflict management to ensure any material non-public information that you provide BNZ is not used inappropriately or unlawfully. BNZ will also discuss with you an execution strategy, including whether or not Transaction Pre-Hedging may be required to achieve your execution objectives.
- (B) "Price Sensitive Transaction Pre-Hedging" is pre-hedging activity undertaken by BNZ prior to the execution of an anticipated PST with the aim of (1) providing you with the best overall outcome in executing your order, (2) minimising any potential market impact that may result from the execution of your order and (3) assisting BNZ in managing the market risk it expects to face following the execution of the order.

Pre-hedging is undertaken by BNZ in its principal capacity and not as an agent for you and may include trading the same product or currencies, trading in correlated products or currencies, or establishing derivative positions on any of the foregoing. The price of any pre-hedging transaction entered into by BNZ may be different to the price BNZ is willing or able to offer you and may result in a profit or loss to BNZ. While undertaking pre-hedging activity with respect to your order, BNZ may also be active in the same financial markets relevant to your order conducting other on-going business, including Market Making.

BNZ will discuss with you a preferred execution and pre-hedging strategy to achieve your execution objectives. This may include establishing an agreed market and/or time window in which pre-hedging will be conducted. In all cases, BNZ will engage in pre-hedging in compliance with all applicable laws and regulations, in a responsible manner, and proportionate to the risk it expects to take on. Factors which may influence whether pre-hedging is undertaken with respect to an anticipated transaction include (1) customer preference on pre-hedging, (2) the size of the anticipated transaction relative to the available market liquidity, and (3) BNZ's overall market risk exposure across its portfolio at that time. If BNZ does engage in pre-hedging activity in relation to a PST, we will report the outcome of this activity to you following execution of the order.

Whilst pre-hedging is conducted with the aim of achieving the objectives above, we cannot guarantee it will achieve these outcomes. In certain circumstances such as times of increased market volatility or trading in illiquid products, pre-hedging trading activity may result in an impact (either positive or negative) on the price and/or volume BNZ is willing or able to offer you. If you have any questions regarding BNZ's potential pre-hedging activity we would be happy to discuss with you further. Please contact your BNZ Markets specialist for further details.

Reference Price Transactions

Reference Price Transactions are transactions in which you and BNZ agree that the price will be determined at a future time by reference to an agreed benchmark, auction or other fixing at a specific time or during a specified window ("Fixing Price"). As the Fixing Price of the transaction is not determined until after the transaction is entered into, this creates an inherent conflict between BNZ as a counterparty to your transaction and BNZ's other trading activity. Before entering into a Reference Price Transaction, you should understand the methodology of how the Fixing Price is determined and that BNZ may be engaged in Market Making Activity or other trading activity which may have an adverse impact on the Fixing Price. BNZ will conduct any trading activity in relation to a Reference Price Transaction in compliance with all applicable laws and has policies and procedures in place to manage (but not eliminate) this conflict.

Risk Management

BNZ 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 Financial Products or correlated products and establishing derivative positions on any of the foregoing and may also take account of other sources of exposure (such as market dislocations and disruptions). Risk management includes using aggregated unexecuted trade request information in BNZ's pricing, as long as such usage does not have the purpose of intentionally disadvantaging a particular customer.

Information Handling

As a general principle, BNZ endeavours to be clear and accurate in its communications, protect confidential information, support effective communication, and promote an efficient, open, fair and transparent market.

BNZ and NAB Group's sales, trading and other personnel will consult with each other, including with respect to a client's interests, trading behaviour and expectations, mark-up, spread, and any other relevant factors, on a need-to-know basis in order to manage BNZ's market-making positions, and for the benefit of BNZ's trading positions and the handling of other clients' transactions. As noted above, for large transactions, BNZ may establish an Information Wall to further protect private information.

The NAB Group runs a global trading book that is passed across time zones. In order to facilitate this globally, your information and orders are shared within the NAB Group as required and on a need to know basis. For example, BNZ can pass your order details to NAB and vice versa but your name will not be disclosed outside of the NAB Group. BNZ may use the economic terms of a transaction, to source liquidity and/or execute risk-mitigating transactions. NAB also reports information as required by global regulators.

Protecting the confidentiality and security of your information is an important part of how we do business. NAB Group has policies, procedures, systems and controls that are designed to protect confidential information.

However, BNZ makes use of information provided to it as principal in order to effect and risk manage transactions for itself and for counterparties.

With regard to executed transactions, BNZ analyses this information on an individual and aggregate basis for a variety of purposes, including client risk management, sales coverage, and 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

BNZ 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 your consent or at your request; where such information is required to be publically 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 BNZ.

Disputes and Complaints

If you have a dispute or a complaint about a transaction or the way we manage our business and it is not being addressed by the relevant BNZ employee, you may escalate it by email to the Head of BNZ Markets, at Head_of_BNZ_Markets@bnz.co.nz.

In addition to the above, our current practices include the following while dealing in spot and forward FX with you as a wholesale customer:

Conflicts – Benchmark Orders

FX Benchmarks are market reference rates and include, amongst others, the WM/Refinitiv FX benchmark (“WMR 4pm Fix”). BNZ does not have a separate desk for management of benchmark orders because it is not a submitter or direct contributor to FX benchmarks. Benchmark orders are managed by trading desks. BNZ may be involved in handling other, unrelated orders during the relevant fix window. Administrators of benchmarks, calculated by reference to bids and offers in markets during a period, may use BNZ’s bids and offers in the market in accordance with the administrator’s rules and without BNZ being aware that a particular bid or offer is being used indirectly for the benchmark calculation. For more information on the WM/Refinitiv FX benchmark, see the [methodology guide](#) published by the administrator.

Spot FX Order Types

Order types are explained in the BNZ “Spot FX Order Management for Wholesale Customers” factsheet, available on request from your BNZ Markets Specialist or from our website. You should have a clear understanding of the conditions and ramifications of any order that you choose to place before placing such an order with BNZ.

Pricing, Reference Pricing and Mark-Up

If, and when, your order can be executed at the order price it does not mean that BNZ 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. BNZ determines a fair and reasonable level or price of final execution (with reference to the client’s instructions) based on BNZ’s validity and price check process, using a range of third party pricing and BNZ’s assessment of market liquidity, volatility and the orderly functioning of the market. A tradeable market must exist in order for BNZ to attempt to execute a client’s order request with other counterparties (if there is no tradeable market, BNZ may be unable to execute the order), and BNZ will use its discretion to determine a tradeable market price or a specific market low or high price during a trading period. BNZ will endeavor to communicate a specific high and low market price upon request and as soon as is practical.

The price at which BNZ executes a trade may include a “Mark-Up” over the price at which BNZ transacted, or may have been able to transact, with other counterparties. “Mark-Up” is the spread or charge that may be included in the final price of a transaction in order to compensate BNZ for a number of considerations which might include risks taken, costs incurred and services rendered to a particular client.

Mark-Up may impact the pricing and/or execution of any order linked to, or triggered at, a specific level. If you give the sales team an order at a specific level, the sales team may include Mark-Up on the order. Accordingly, there is a risk that your level may be reached but the order will not trigger due to the Mark-Up.

Unless otherwise agreed, any firm or indicative price quoted by BNZ to you is an “all-in” price, inclusive of any Mark-Up above the price at which BNZ may be able to transact, or has transacted.

BNZ has discretion to offer different Mark-Up to different clients for the same or substantially similar transactions.

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.

BNZ may provide firm or indicative quotes via automated channels, including but not limited to BNZ proprietary and third-party electronic platforms and direct application programming interfaces (collectively “Platforms”). If we provide you with access to electronic execution trading platforms using algorithm (“algo”) s, 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 platforms where the algo directs our hedging activity to inform the pricing of our transactions with you and whether the algo is sourcing liquidity passively or aggressively. BNZ’s selection of a default platform or other liquidity source for an algo may present certain conflicts of interest.
- By electing to use an electronic execution algo, you assume the risks generally associated with algo execution and strategies including, but not limited to, market conditions preventing the algo functioning as designed, the potential vulnerability to the conduct of other market participants trading on the Platforms, technological or operational delay and failure or malfunction that may directly or indirectly impact the functioning of the algo.
- 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 algo and current Platform prices.
- Where BNZ makes third party owned and operated algo trading services available to you, you will remain BNZ’s client in respect to all executed transactions and you will not become a client of the third party.

FX Algo Orders

BNZ offers a selection of FX 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.

There are additional terms that apply to algo services (i.e., the algos have their own Ts&Cs, for example XTX. We also have BNZ customer-facing Ts&Cs for use of the XTX algo and the NAB algo.

Please contact your BNZ Markets Specialist for further details.