

RBC Investor & Treasury Services' Role in the Global Currencies Markets

Publication date: February 2018

Overview

Royal Bank of Canada Financial Group, which includes the entities operating as RBC Investor & Treasury Services (collectively, "RBC I&TS"), is one of the largest and most highly rated financial institutions in the world. Royal Bank of Canada has a long held reputation for serving its clients well based on trust, integrity and excellence. At RBC I&TS, we are dedicated to the highest standards of integrity. We value our relationship with our clients and recognize that we need to earn the right to be your first choice. We believe that the best way to do this is to build long term relationships based on accountability, transparency, and an open two-way dialogue. This notice forms part of our ongoing relationship with you.

We are writing to provide you with enhanced transparency of the overarching standards and principles that apply to your trading relationship with RBC I&TS in the currencies markets. RBC I&TS provides Foreign Exchange (or "FX") execution services to institutional clients and counterparties, including executing FX spot, forward and swap transactions with such clients and counterparties directly through our trading desks or, on a standing mandate basis, through standing instructions and/or currency overlay services.

These standards and principles serve to supplement applicable local laws, rules and regulations (and any relevant terms and conditions) that govern your trading relationship with RBC I&TS and shall apply globally to all your FX trading activities with RBC I&TS from this date onwards.

Principal Trading and Market Making

- In global FX markets, RBC I&TS engages in price quoting, order taking, trade execution, and other related activities. Unless otherwise agreed, RBC I&TS engages in these activities as a principal and not as agent. RBC I&TS does not act as a fiduciary or an advisor, or in another similar capacity on behalf of its clients, although RBC I&TS does have certain obligations to its clients under applicable local laws, rules, and regulations. RBC I&TS and its clients may have divergent or conflicting interests in these activities. RBC I&TS takes all reasonable steps to identify and manage conflicts of interests in accordance with applicable local laws, rules, and regulations.
- Where RBC I&TS operates in the markets described above, RBC I&TS may trade prior to or alongside client transactions, including to: execute other client transactions; hedge or source liquidity for market making purposes; to manage RBC I&TS' risk; or as part of a previously commenced trading strategy, any of which may conflict with client interests. Additionally, we may choose to pre-hedge a client order or client transaction request to enable RBC I&TS to provide liquidity, manage risk, execute client orders and transactions, or for other reasons. These activities can impact the price of the underlying market and consequently the price of client transactions. In addition, and regardless of how RBC I&TS chooses to hedge or manage its risk, any profit or loss resulting from that activity will accrue to RBC I&TS. Such trading will occur in compliance with applicable local laws, rules, and regulations.

- RBC I&TS' activities may result in a trigger, or delay or prevention of a trigger, of stop loss orders, barriers, knock-outs, knock-ins, and other similar instruments which are dependent on market movements. RBC I&TS employs reasonably designed means to avoid undue market impact.
- RBC I&TS may utilize a number of internal and external sources of liquidity in order to provide bids and offers, and executions to clients.
- Any statement provided by RBC I&TS should not be construed as a recommendation or investment advice regarding the value or advisability of any trading activity, and is not based on or tailored to a client's particular circumstances or characteristics. A client is expected to evaluate the appropriateness of any transaction based on the client's own assessment of the transaction's merits and all facts and circumstances in connection therewith, in consultation with its own independent advisers as appropriate.
- During periods of volatile markets, RBC I&TS endeavours to continue to serve its clients but may not be able to provide the product offering, level of execution, liquidity, or pricing as would be the case under more normalized market conditions, and as such, RBC I&TS is not responsible or liable for the impact that such constraints may present.

Order Management

- When RBC I&TS accepts a client's order at a price (such as a limit order), RBC I&TS is agreeing to attempt to complete the trade, as principal, for the price requested by the client. Where the trade is a limit order, RBC I&TS will use its professional judgment to determine whether a limit has been reached, including where a third-party pricing source is a determinant in establishing this reference price. RBC I&TS' acceptance of a client's order does not mean that RBC I&TS will be able to complete the transaction at the order price level requested or that a tradeable market exists to execute at that level. RBC I&TS' ability or willingness to fill such an order may be impacted by a number of factors, including, without limitation, its client exposure, market exposure and overall market strategy. RBC I&TS retains discretion regarding the manner in which it may satisfy such orders, which shall be exercised and appropriately timestamped in accordance with applicable local laws, rules and regulations. Orders will be timestamped when they are accepted, and when they are triggered/executed or cancelled.
- RBC I&TS will decide, at its discretion, whether to work an order, when and how to execute the order, including whether to execute all or part of the order and whether to execute the order electronically or manually, unless we have otherwise expressly agreed to different terms of execution.
- RBC I&TS will attempt to execute the full size of a client order given prevailing market conditions and client instructions. RBC I&TS will assume that partial fills are acceptable to clients unless mutually agreed otherwise.
- As noted above, whenever a client seeks to enter into a transaction, RBC I&TS may enter into transactions in the relevant or related instruments for its own account and access internal and external sources of liquidity to facilitate the execution of the client transaction.

- There may be circumstances where RBC I&TS is unable to accept a client order or client transaction request. Further, RBC I&TS' undertaking to work a client order does not create a contract between the client and RBC I&TS that commits RBC I&TS to execute any or all of the order. RBC I&TS' determination that an order has been filled will create a binding agreement between RBC I&TS and the client on the terms and conditions specified between the parties. Prior to this determination, the order may be cancelled in accordance with existing arrangements as agreed between RBC I&TS and the client from time to time.
- For algorithmic trading services, where required, RBC I&TS determines internal routing preferences based on factors including applicable best execution obligations and ongoing liquidity analysis.

Pricing

- Unless otherwise agreed, RBC I&TS provides what is commonly referred to as “all-in” pricing for FX transactions. Accordingly, unless we agree otherwise, the price of any FX transaction that RBC I&TS executes for clients may include what we believe to be a reasonable bid-ask spread and/or a mark-up. Such “all-in” pricing also applies to orders that RBC I&TS agrees to execute using its discretion (e.g. “at best” orders or orders executed over a specific period of time).
- RBC I&TS' pricing is based on a number of factors, including, without limitation, the type of transaction involved, prevailing market conditions, the accessibility of quotations and other pricing information, the transparency of the market, RBC I&TS' rate of return, hedging and market risk, credit risk, operational costs, applicable regulatory requirements, and other internal and external factors.
- Pricing may vary for different clients for the same or substantially similar transactions for a number of reasons, including without limitation, the client's trading volumes, the support services provided to the client, credit quality and the client's overall relationship with the RBC group of companies.

Fixing Orders

- Where RBC I&TS accepts a fixing order, RBC I&TS is agreeing to fulfill the client order at the rate established by the fix. RBC I&TS aggregates client orders and distributes them to external market counterparties or its affiliate, RBC Capital Markets, to execute at the published fix rate. To facilitate this, RBC I&TS has established a deadline of 20 minutes prior to the hour by which time all client fixing orders must be received in order for clients to be assured of receiving the relevant fix rate plus the pre-agreed margin. In the distribution of these fixing orders, RBC I&TS commits to executing these trades at the published fix rate. Post-execution, the external counterparties confirm the fix rate to RBC I&TS, and RBC I&TS confirms both the market fix rate and all-in rate back to the client.

Electronic Trading – “Last Look”

- “Last Look” generally describes the FX trade acceptance process in which RBC I&TS checks open risk, credit limits, market conditions, and compares the rate at which clients are attempting to trade versus the latest price update available to RBC I&TS. Trade requests are then accepted or rejected based on a set of tolerances. All electronic FX trades are subject to a Last Look check. When comparing the requested and latest rate, RBC I&TS may delay the trade request to ensure that RBC I&TS has the most up-to-date and reliable market information (typically termed a “hold period”). This pre-trade control mechanism is also utilized as a protection mechanism to mitigate technological anomalies, unanticipated market movements, and predatory trading from latency arbitrageurs. Hold periods for FX transactions will typically vary between 0-100 milliseconds depending on the transaction history of the client. Implementing the “Last Look” functionality can allow RBC I&TS as a market maker to maintain tighter bid-offer spreads for its clients.
- Unless otherwise agreed, RBC I&TS will apply “symmetrical last look” to electronic trading. “Symmetrical last look” refers to circumstances where client trade requests are rejected if the requested rate is outside of the deal acceptance parameter threshold, regardless of whether the rate is positive or negative to RBC I&TS.
- Regardless of whether “symmetrical last look” applies, RBC I&TS may reject trades which RBC I&TS regards as predatory behavior or practices, which may include latency trading as well as any other behavior which RBC I&TS reasonably considers to be predatory in nature.

Client Information

- Protecting counterparty information is of fundamental principle to RBC I&TS. RBC I&TS has arrangements in place designed to protect and safeguard client information in accordance with applicable local laws, rules and regulations.
- RBC I&TS makes use of certain information contained in orders, client transaction requests and executed transactions. Where permitted by applicable law and the terms agreed between RBC I&TS and a client, RBC I&TS may use the economic terms of orders, client transaction requests and executed transactions to manage its risk and to test or source liquidity, as well as to evaluate and implement risk mitigation strategies and transactions.
- RBC I&TS may share client information with its global regulators in accordance with its legal and regulatory obligations, and as otherwise set out in RBC I&TS’ applicable terms and conditions.
- RBC I&TS may also analyze, comment on, consider for internal planning purposes, and disseminate aggregated and anonymized information regarding executed transactions, together with other relevant market information, for certain purposes, including client risk management, sales coverage and client relationship management.

Our Culture of Integrity

- RBC I&TS is committed to adhering to high standards of behavior, acting with integrity, and complying with applicable laws and published industry best practices. We are focused on ensuring that RBC I&TS continues to act in a trustworthy and responsible manner as our clients have come to expect.
- To that end, RBC I&TS' employees, officers and directors receive regular training on RBC's Code of Conduct (the "Code") (as well as other relevant policies and procedures) which sets out the ethical principles by which we are bound. These principles include a clear statement as to the standards to which we hold ourselves in respect of our clients and our behavior. The full text of the Code is available at: <http://www.rbc.com/governance/assets-custom/pdf/RBCCodeOfConduct.pdf>.

If you have any questions regarding this notice, we strongly encourage you to contact your client manager. RBC I&TS believes that the cornerstone of a long-term relationship is an open two-way dialogue, and we look forward to continuing this with you.

The contents of this notice may be updated from time to time. This notice is available at <https://www.rbcits.com/assets/rbcits/docs/disclaimers/rbc-its-fx-disclosure-notice.pdf>.