17 February 2023

DISCLOSURE APPLICABLE TO CLIENTS TRADING FOREIGN EXCHANGE ELECTRONICALLY WITH NATWEST MARKETS

1. Introduction

This disclosure provides further information for clients in relation to the 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.

Note that except where otherwise stated this disclosure applies to the following FX transactions: spot, forwards (including time options), swaps and options, in each case whether deliverable or non-deliverable.

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 (https://www.natwest.com/corporates/support/disclosures.html) and you should therefore check that website regularly.

2. 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).

3. 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:

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

    b) 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 and product; 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 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.

4. 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 or product limitations. Clients may also request that price improvement is not applied to their trading.

5. 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 6, rather than the wider market.

6. 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.

When NatWest Markets sends a liquidity provider a transaction request using this solution, it may include a unique identifier of the client (a "tag") to which the transaction relates. This tag is in numerical form and NatWest Markets does not apply retagging. NatWest Markets does not disclose the identity of the client or any human user information to the liquidity provider (as part of any tag or otherwise) and puts in place confidentiality obligations which restrict the use of information by the liquidity provider. 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.

7. Use of latency buffers

A latency buffer (also known as a 'hold period') is an enforced time period following receipt of a transaction request after which a dealer checks its current FX rate against the FX rate requested by its client when performing rate validation. As of the date of this disclosure, NatWest Markets no longer applies latency buffers to its FX trading. Further information relating to latency buffers applied historically may be provided upon client request.

8. Statistics

Based on a review of FX transactions entered into in 2022 across NatWest Markets Plc and NatWest Markets N.V.

for which last look was applied, the typical last look window depending on transaction type is as follows:

Product	Minimum Last Look Window	Median Last Look Window	Maximum Last Look Window – large majority of transactions
Spot FX transactions	1ms	5ms	14ms
FX forwards (including the forward element of	3ms	15ms	302ms
FX options	276ms	574ms	1364ms

Note that figures in this table are approximate and, to remove outliers, the "Maximum" figures shown are periods that are equal to or greater than the last look window applicable to 90% of transactions measured. The last look window is the 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. The products listed include both deliverable and non-deliverable transactions. As we no longer apply latency buffers to our FX trading, the statistics exclude historical transactions to which latency buffers were applied. The statistics for FX forwards do not include FX time options or multi-deal transactions.

9. Further Information

In addition to the above, NatWest Markets can, upon request, provide clients with information regarding average response times and request acceptance ratios.

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.