



RBC Capital Markets' Role in the Global Fixed Income, Currencies and Commodities Markets

Publication date: February 2018

Overview

Royal Bank of Canada is one of the largest financial institutions in the world and has a long-held reputation for serving its clients well based on trust, client service, and excellence. At Royal Bank of Canada, 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 Capital Markets (“RBCCM”)¹ in the fixed income, currencies and commodities (“FICC”) markets. RBCCM provides a full range of products and services to institutional clients and counterparties, including, but not limited to, transactions in fixed income (rates, credit, futures, and municipal products), currencies (“foreign exchange” or “FX”) (spot, forwards, swaps, and options), and commodities.

The standards and principles outlined in this notice serve to supplement applicable local laws, rules, and regulations (and any relevant terms and conditions) that govern your trading relationship with RBCCM, and shall apply globally to all your FICC trading activities with RBCCM from this date onwards.

Principal Trading and Market Making

- In global FICC markets, RBCCM engages in price quoting, order taking, trade execution, and other related activities. Unless otherwise agreed, RBCCM engages in these activities as a principal and not as agent. RBCCM does not act as a fiduciary or an advisor, or in another similar capacity on behalf of its clients, although RBCCM may have certain obligations to its clients under applicable local laws, rules, and regulations. RBCCM and its clients may have divergent or conflicting interests in these activities. RBCCM takes reasonable steps to identify and manage conflicts of interests in accordance with applicable local laws, rules, and regulations.

¹ RBCCM is the global brand name for the capital markets business of Royal Bank of Canada and certain of its subsidiaries.

- Where RBCCM operates in the markets described above, RBCCM may trade prior to or alongside client transactions, including to: execute other client transactions; hedge or source liquidity for market making purposes; to manage RBCCM's 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 RBCCM to provide liquidity, manage its risk, execute client orders and transactions, or for other legitimate business reasons. These activities can impact the price of the underlying market and consequently the price of client transactions. In addition, and regardless of how RBCCM chooses to hedge or manage its risk, any profit or loss resulting from that activity will accrue to RBCCM. Such trading will occur in compliance with applicable local laws, rules, and regulations.
- RBCCM's activities may affect a trigger, or the 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. RBCCM employs reasonably designed means to avoid undue market impact.
- RBCCM may utilize a number of internal and external sources of liquidity in order to provide bids and offers, and to execute transactions with clients.
- Any statement provided by RBCCM 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, RBCCM 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 normal market conditions, and as such, RBCCM is not responsible or liable for the impact that such constraints may present.

Order Management

- When RBCCM accepts a client's order at a price (such as a limit order), RBCCM is agreeing to attempt to complete the trade as principal for the price requested by the client. Where the trade is a limit order, RBCCM 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. RBCCM's acceptance of a client's order does not mean that RBCCM will be able to complete the transaction at the order price level requested or that a tradeable market exists to execute at that level. RBCCM's 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. RBCCM 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. FX orders will be timestamped when they are accepted, and when they are triggered/executed or cancelled.

- RBCCM 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.
- RBCCM will attempt to execute the full size of a client order given prevailing market conditions and client instructions. RBCCM 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, RBCCM 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 RBCCM is unable to accept a client order or client transaction request. Further, RBCCM's undertaking to work a client order does not create a contract between the client and RBCCM that commits RBCCM to execute any or all of the order. RBCCM's determination that an order has been filled will create a binding agreement between RBCCM and the client on the terms and conditions specified between the parties. Prior to this determination, either party may cancel the order subject to any existing arrangements agreed between RBCCM and the client from time to time.
- For algorithmic trading services, where required, RBCCM determines internal routing preferences based on factors including applicable best execution obligations and ongoing liquidity analysis.

Pricing

- Unless otherwise agreed, RBCCM provides what is commonly referred to as "all-in" pricing for FICC transactions. Accordingly, unless we agree otherwise, the price of any FICC transaction that RBCCM 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 RBCCM agrees to execute using its discretion (e.g. "at best" orders or orders executed over a specific period of time).
- RBCCM's pricing is based on a number of factors, including, without limitation, the type of instrument and transaction involved, prevailing market conditions, the accessibility of

quotations and other pricing information, the transparency of the market, RBCCM's 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 service provided to the client by the sales team and other support services, credit quality, and the client's overall relationship with the RBC group of companies.

Fixing Orders

- On acceptance of a client fixing order in the FX markets, RBCCM is exposed to market risk to the extent that it must fulfill the client order at whatever price is established by the fix. In order to manage this risk, RBCCM may transact in the relevant market and with other market participants before, during, and after the relevant fixing window. As a trading participant on a number of screen-based trading platforms that provide trading data to the fixing administrators which is used to calculate the fix price, RBCCM's trading activity during the fixing window may be taken into account for the fix price calculation.
- RBCCM's trading activity before and during the fixing window may affect the price of the underlying market and consequently the fix price. RBCCM may deal at prices different to the fix price and may make a profit or loss on such trading relative to the fix price. Any profit or loss resulting from that activity will accrue to RBCCM. Any such trading will occur in compliance with applicable local laws, rules, and regulations.

Electronic Trading – “Last Look”

- “Last Look” generally describes the FX trade acceptance process in which RBCCM 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 RBCCM. 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, RBCCM may delay the trade request to ensure that RBCCM has 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 RBCCM as a market maker to maintain tighter bid-offer spreads for its clients.

- Unless otherwise agreed, RBCCM 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 RBCCM. Clients have the option (upon their prior written consent) to opt-out of “symmetrical last look” and have “asymmetrical last look” applied to their trading. “Asymmetrical last look” refers to circumstances where client trade requests are rejected if the requested rate is outside the deal acceptance parameter threshold and is negative to RBCCM. If the client trade request is outside of the deal acceptance parameter threshold and is positive to RBCCM, then the deal would still be accepted.
- Regardless of whether “symmetrical” or “asymmetrical” last look applies, RBCCM may reject trades which RBCCM regards as predatory behavior or practices, which may include latency trading as well as any other behavior which RBCCM reasonably considers to be predatory in nature.

Client Information

- Protecting counterparty information is of fundamental importance to RBCCM. RBCCM has arrangements in place designed to protect and safeguard client information in accordance with applicable local laws, rules, and regulations.
- RBCCM makes use of certain information contained in orders, client transaction requests, and executed transactions. Subject to the terms agreed between RBCCM and a client, and where permitted by applicable law, RBCCM 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 its risk mitigation strategies and transactions.
- RBCCM may share client information in accordance with its legal and regulatory obligations, and as otherwise set out in our applicable terms and conditions.
- RBCCM 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

- RBCCM 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 RBCCM continues to act in a trustworthy and responsible manner as our clients have come to expect.

- To that end, RBCCM's 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/RBCCCodeOfConduct.pdf.

If you have any questions regarding this notice, we encourage you to contact your account representative. RBCCM 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.rbccm.com/en/policies-disclaimers.page>.