Foreign Exchange Terms of Business

BMO

BMO Capital Markets

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Bank of Montreal (BMO): Foreign Exchange (FX) Terms of Business

Introduction

- The foreign exchange (FX) business arm of Bank of Montreal and its affiliates ("BMO"/"Bank") serves the currency needs of its clients. This business has a physical presence in Canada, US, UK, Hong Kong and China, but may serve clients globally. The purpose of these Terms of Business is to provide transparency on the way BMO conducts its FX business. They are not intended to be an exhaustive declaration of practices or policies. This disclosure is not intended to conflict with or override any relevant law, regulatory rule or other applicable requirement in any jurisdiction in which BMO operates, the terms of which may vary depending on the precise nature of your relationship with BMO and the jurisdiction(s) in which we operate. BMO acts only as principal in all its FX dealings. BMO does not act as an agent or in any fiduciary capacity on behalf of its counterparties. BMO is dedicated to upholding a high level of integrity and adhering to the best practices and requirements published by relevant international groups and regulatory bodies in our dealings with counterparties. If a conflict of interest should arise between BMO and a counterparty, BMO will manage its activities in accordance with relevant policies, procedures and other controls to mitigate those conflicts.

  BMO's FX salespersons and traders (FX Professionals) do not serve as brokers or agents to a counterparty. BMO will be truthful in its statements about any facts, but its statements should not be construed as recommendation or advice. A counterparty is expected to evaluate the appropriateness of any transaction based on the counterparty's own facts and circumstances and its assessment of the transaction's merits.

Order Acceptance – General Guidance

- It is necessary for a variety of reasons, including risk control and the need to meet legal obligations, for BMO to undertake 'know your counterparty' checks before dealing with clients. Once this has been satisfied, and providing appropriate credit limits are in place, orders may be accepted through one of the following client-dependent channels:
  - through Bank of Montreal branches;
  - verbally over the telephone (recorded phone lines only);
  - via email (BMO address only);
  - through industry accepted chatroom (e.g. Reuters or Bloomberg);
  - directly on platforms such as eFXpedite or OLBB (BMO platforms), or via third party platforms (e.g. FX Connect, 360T, FX All, Bloomberg).

- BMO reserves the right to refuse to accept any order (including benchmark orders) based on prevailing market conditions (such as poor liquidity) or where such acceptance may potentially harm the Bank by any means.

Order Acceptance - Benchmark Orders

- A benchmark order is an order to buy or sell a specified amount of currency at the FX benchmark requested.
- Clients may provide orders based on industry benchmark reference data (e.g. WM Reuters (WMR), Bank of Canada, Bank of England and Bloomberg), to fulfil their respective obligations and needs. Only client orders will be traded at the official benchmark settings (FIX).
- Guidance on how to manage such orders (also referred to as FIX orders) will evolve as best practice guidelines and/or mandatory regulations are issued by regulatory bodies. BMO FX management will continue to work to stay updated on evolving industry standards and regulations. In the absence of mandatory regulations issued by regulatory bodies in the jurisdictions under which BMO operates, the Bank will manage such orders using its own discretion, based on its philosophy of (1) serving the client, and (2) protecting the Brand.
- BMO facilitates benchmark orders with one of two pricing schedules. The client will be given the option of:
  - Trading at the published bid or offer rate of the relevant benchmark;
  - Trading at the published benchmark mid-rate plus a fee per 1 million USD;
  - Pricing may be revised at any time (with appropriate notice) and solely at the discretion of BMO.

- BMO will continue to accept benchmark orders on a reasonable basis in CNH and all USD-based non-deliverable currency pairs.
- Client orders are to be received at least 10 minutes before the FIX window opens. FIX orders taking place within 10 minutes of the window opening may only be accepted at the discretion of the Bank.
- Clients should recognize that there is a cost and risk to the Bank when executing FIX orders. Hence, transacting such orders will be done at the discretion of the Bank. Existing clients who have transacted such orders in the past with BMO are not necessarily guaranteed the continuation of such transactions in the future. Any new relationship that requires the benchmark reference point may become eligible at the discretion of the Bank. Client orders which require the benchmark rate on an *ad hoc* basis will only be accepted at the sole discretion of the Bank. The Bank will endeavour to ensure that no specific trades are accepted or executed that will or may have the effect of moving the market.

Foreign Exchange Product Pricing, Order Execution and Management

- Pricing offered to clients may be reflective of an array of factors, including, but not limited to, the relationship with the client, the client type, the product being sold, the volume, the current market conditions, client's creditworthiness, the competitive landscape and the potential risk to the Bank.
- The Bank will strive for "best execution" for the client having particular regard to market conditions, when handling FX client orders. Best execution is the obligation to obtain the best possible result for the client, taking into account a range of execution factors when executing orders. Best execution is broader than "best price" and takes into account price, costs, speed, likelihood of execution and settlement, size, the specific instructions of the client and any other consideration relevant to the execution of the order. The Bank considers charging the client the total range traded during execution as inappropriate and unacceptable.
- When agreed execution terms dictate that BMO exercise discretion in the execution of an order, BMO will assume a fiduciary obligation limited to achieving favourable execution of the order in line with your instructions, taking into account market conditions and BMO's available execution abilities.
- Subject to relevant laws and regulations, FX Professionals at the Bank may engage in appropriate market-making and risk-management activities, including sourcing liquidity in anticipation of customer needs or hedging or mitigating exposure resulting from a client order. Under no circumstances are FX Professionals at the Bank allowed to use individual trade and position information of a counterparty or customer with the intent of adversely affecting the interests of that counterparty or customer.
- The execution rate may reflect the cost and market risk taken by the Bank. For window orders, the length of the transaction window has to be pre-agreed with the client.
- Orders will be (i) executed without undue delay if the market is at the client price (taking into account all relevant factors listed above), or (ii) placed in an order management system (OMS) if that price point hasn't been reached. For orders received manually (e.g., via phone) on the OMS, the Bank will endeavour to inform the clients once their trade has been executed.
- It should be recognized that there will be heightened emphasis and sensitivity on market risk and credit management issues during times of market volatility. When an individual currency is experiencing high volatility, the Bank will pay special attention to the financing of client trades in that currency.
- FX Professionals at BMO will execute orders within the limits that are allocated to them by the Bank.
  The Bank will endeavour to carry out FX orders sequentially and promptly in respect of the lowest marketable amount, giving due regard to achieving a fair and reasonable outcome for the client. Where a non-marketable amount is left, any fill will be at the discretion of the Bank. A marketable amount is considered to be the smallest order amount acceptable on Reuters Dealing and EBS.
- In fulfilling any order, FX Professionals at the Bank are not permitted to collude with any external party, or undertake any activity with an attempt to manipulate the market price by executing large buy or sell orders.

- **Order Aggregation**
  - Should the Bank receive multiple orders at, or around, the same time, the Bank may aggregate the orders and allocate the resulting fills as the aggregate order is executed. Orders may only be aggregated if it is unlikely that this will be disadvantageous to any client whose order is to be aggregated.
  - If in the process of executing an order for the Bank's own book, a client order is triggered, the Bank reserves the right to mitigate its own risk prior to filling the client order. Notwithstanding the foregoing, at no time are FX Professionals at the Bank permitted to utilise information or positioning to the detriment of clients.
  - Should BMO's book position dictate that it execute an order from its own book in the same direction as a client order, BMO will endeavour to execute the client order in full ahead of BMO's own order, unless by aggregating the order, the Bank can demonstrate that the client will receive the same or better execution outcome. If BMO aggregates a client order with the Bank's own order and the aggregated order is partially executed, it will endeavour to allocate the resulting fills to the client in priority over BMO. However, if BMO is able to demonstrate on reasonable grounds that without the combination, BMO would not have been able to carry out the client's order on such advantageous terms or at all, BMO

may allocate the transaction for its own account proportionally. Where the aggregated BMO account and client orders have been allocated, there must be no reallocation of trades in a way that is detrimental to the client. If BMO has been working orders for its own risk mitigation well in advance of receiving a client order, then the best practice is to fill the orders in the order in which they were received.

- **Stop-loss Orders**

  Stop-loss orders are worked on a best efforts basis by the Bank. No guarantees can be provided to the client. There will be no sequencing with stop-loss orders; they will be aggregated and worked as one order. Deliberate triggering of an option-related barrier is unacceptable. When working stop-loss orders, the FX Professional will endeavour to work in the interest of the client, while being cognisant of managing the Bank's risk. Both factors will be taken into account during execution.

- **Disclosure**
  - Client-facing FX Professionals at the Bank are to endeavour to be transparent with clients with respect to the market (e.g. managing a stop-loss order). Clients should engage in appropriate conversations with their FX point of contact at the Bank (especially at the onset of a relationship), to manage their expectations on order execution and management.

Information Handling / Confidentiality

- BMO endeavours to protect client information. As such, client-specific FX flow information or trading strategies are not to be shared externally outside the Bank (unless requested to do so by a regulatory body or by an Audit function). This applies particularly to current orders or trading strategies, but can also include past trading information. The Bank has policies and procedures in place which govern the protection of client information.