

# Foreign Exchange Terms of Business



## Overview

The purpose of this General Disclosure Statement is to clarify the nature of the trading relationship between you, our client, and Bank of Montreal Global Markets division ('BMO') and to disclose relevant practices of BMO when acting as a dealer, on a principal basis, in the Foreign Exchange ("FX") markets.

This General Disclosure Statement supplements and should be read in conjunction with any other disclosures or agreements regarding such matters as BMO may provide to or agree with you including, without limitation, terms of business, any master agreement for financial transactions, BMO's general disclosures as a swap dealer, BMO's risk disclosures and such other disclosures as may be provided by BMO from time to time. To the extent this disclosure statement conflicts with any agreement in place between you and BMO, the other agreement will govern.

Please note also that BMO has committed to the industry best practices outlined in the FX Global Code ('Code'). BMO conducts its FX market activities in a manner consistent with the principles of the Code in support of a liquid, robust, accessible and appropriately transparent FX market.

With the exception of the Algorithmic FX Execution Services described below, BMO trades as principal in the FX markets in a broad range of currencies in FX spot, forwards (including non-deliverable forwards), futures, swaps and options, both for clients and for its own risk management purposes. Conflicts of interest may arise between you and BMO, as BMO regularly acts not only in the specific product for which you may request pricing, but also for other correlated products. BMO employs policies and procedures designed to identify and manage conflicts of interest appropriately.

Unless otherwise agreed with respect to Algorithmic FX Execution, BMO does not trade in an agency capacity nor does it act as fiduciary, financial advisor or in any similar capacity on behalf of a client and thus does not undertake any of the duties that an entity acting in that capacity would ordinarily perform.

Where agreed execution terms dictate that BMO exercises discretion in the execution of an order, BMO will, unless otherwise specifically agreed, execute the order in a principal capacity using its professional judgment, in line with client instructions, taking into account market conditions and BMO's available execution capabilities. BMO's sales and trading personnel do not serve as brokers or agents to a client.

Any statements made by BMO should not be construed as recommendations or investment advice. You are expected to evaluate the appropriateness of any transaction based on your own assessment of the transaction's merits and all facts and circumstances in connection therewith.

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 us and the jurisdiction(s) in which we operate.

## Market Making and Pricing

BMO is a global market maker in a full range of FX products including spot, forwards and derivatives. Acting as market maker means that BMO handles a portfolio of positions for multiple counterparties' competing interests as well as BMO's own risk management needs. With the exception of Algorithmic FX Execution Services described below, BMO acts as principal with its counterparties, and may trade in the same FX products prior to or alongside your transaction, including by executing or terminating transactions for itself or facilitating executions with other counterparties, managing its risk or sourcing liquidity. These activities can have an impact on the prices we offer a client on a transaction and the availability of liquidity at levels necessary to execute client orders. These activities can also trigger stop loss orders, barriers, knock-outs, knock-ins or similar conditions. Such activity may detrimentally affect the price you receive or any loss or gain you make on your positions. You should be aware that, unless otherwise instructed by you or prohibited by applicable regulation, BMO may also pre-hedge potential client orders around the same time as executing the above transactions or otherwise. Our intention in pre-hedging is to facilitate order execution and reduce the potential market impact of filling your order, with the goal of achieving a better price outcome for you. However, there is no guarantee that the pre-hedging will have the desired outcome. Further, you should note that, regardless of whether BMO pre-hedges your order or not, your order may have a market impact depending on its size and the level of liquidity in the market at the time of execution. If an eventual instruction or order is not received from you, BMO bears responsibility to unwind any pre-hedging transactions in its sole discretion. BMO may aggregate or prioritize client requests and its independent objectives according to its discretion. BMO is not obligated to disclose to you, when you attempt to leave an order, that BMO is handling other clients' orders or BMO orders ahead of, or at the same time as, or on an aggregated basis with, your order. BMO will use its access to liquidity channels to attempt to execute the full size of your transaction subject to the prevailing market conditions and your instructions. Market volatility may result in the price moving significantly from the time of receipt of your order to the time of order execution. Unless otherwise specified or agreed, BMO will provide you with a single 'all-in' price for FX transactions, whether orders or requests for quotes. This will include: (a) the bid/offer spread ('price'), (b) the costs related to execution including execution venue fees, clearing and settlement fees and other fees paid to third parties involved in the execution of the transaction ('costs'); and (c) any additional mark-up ('margin') determined taking into consideration a variety of factors including, but not limited to credit and capital charges, market, processing and service and relationship costs. Each of the above pricing elements will vary depending on the client and the transaction and, as such, different clients may receive different prices for transactions that are the same or similar. Further detail on how these pricing elements apply to you can be obtained from your BMO sales representative.

## Electronic FX Trading

The pricing shown by BMO over its electronic FX trading infrastructure is indicative. Any trade request at a quoted price is submitted in response to such indicative pricing and BMO reserves the right to accept or reject such trade requests in its sole discretion.

BMO may apply a number of pre-trade execution controls, each of which may result in a trade request rejection. These controls include, but are not limited to, credit and settlement risk limits, market risk limits, trade frequency checks and pricing consistency checks. The pricing consistency check element of a trade request made to BMO through an electronic platform is referred to as 'last look' and is a control used to provide risk mitigation to protect BMO against price latency, technology issues and certain trading behaviour.

Last look will only be applied to certain trade requests as determined in accordance with BMO's internal methodology. BMO employs 'Symmetrical Loss Tolerance' checks, comparing current market against the proposed terms of the client trade and may reject any client trade request if the terms of the trade are sufficiently different from current market conditions. Note that by employing Symmetrical Loss Tolerance checks, BMO may reject trade requests that are either in BMO's or the client's favour.

If the trade request is not rejected as set out above then, subject to the outcome of the other pre-trade execution controls, the trade request will be accepted. In cases where a last look is applied, during the holding period (i) no pre-hedging of the trade request will be performed and (ii) no details of your trade request will be used for any trading purpose. Please contact your BMO E-sales representative if you would like further details of our Last Look Policy.

Orders may be accepted through client-dependent channels including third-party venues (eg. 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 BMO, such harm to be determined by BMO in its sole discretion.

### **Algorithmic FX Execution Services**

BMO offers its clients Algorithmic FX Execution Services. Where expressly agreed, client Algorithmic FX Execution submitted to BMO are segregated from principal trading activity and may be executed using BMO as agent, BMO as principal or a combination of BMO as both agent and principal. BMO clients may choose from several execution strategies and may customize certain order execution parameters depending on their preference. Fees related to this service are pre-disclosed and all clients receive a Transaction Cost Analysis ('TCA') report for use in post-execution evaluation. Please contact your BMO E-sales representative if you would like further details of BMO's Algorithmic FX Execution Services and ask for the latest brochure of BMO's FX Algo Suite.

### **Execution of FX Orders**

Orders include, but are not limited to, limit orders (stop-loss and take profit orders), at market (at best or at worst orders) and orders on a fixing. With the exception of Algorithmic FX Execution services described above, BMO executes client orders as principal. Specific execution requirements should be agreed with your BMO representative in writing or on another recorded medium prior to the placing and execution of any order. Where no specific execution instruction has been agreed, BMO will decide, in its discretion, which orders to execute, when to execute them (e.g. by determining if the market has moved through the level that may trigger execution) and how to execute them. There can be no assurance that we will be able to fill your order at the exact level stated in your order, unless otherwise pre-agreed by both parties in writing. However, BMO will make all reasonable efforts to execute the order at the requested level. Under normal circumstances, executable orders will be processed in order of receipt. Also, BMO will assume that partial fills are acceptable to you unless otherwise agreed. We will accept your order within this operating framework. Failure on your part to object to us acting as outlined above will be deemed as consent to us so acting. When acting as principal, BMO's order fulfilment price may include the costs and margin referred to above. As appropriate, these costs and charges may impact the market rate at which execution of your order may be triggered.

### **Benchmark Orders at Specified Fixing Times**

BMO may accept benchmark orders from clients to execute transactions based on a rate calculated by a third party based on trading during a specified time of day (commonly referred to as a "Fixing Window"). Fixing Window prices are derived from monitoring the dealing activity in a currency pair over a specified period of time and are published by an independent company (e.g., World Market Rate) ("WMR" published by Reuters) that utilizes third-party pricing sources. Where possible, BMO will net all orders internally and manage any residual risk via third party or proprietary algorithm strategy. Risk management practices will often result in execution of hedging transactions prior to or during the Fixing Window itself because of a number of factors, including, but not limited to, changes in the full amount and direction of customer orders prior to the Fixing Window and variations in markets during this period. Given that other market participants may face the same challenge, the volume of transactions prior to or during the Fixing Window may increase, and such transactions may impact the ultimate benchmark fixing. BMO engages in other ordinary course of business activities that may impact trade activity during a Fixing Window, including sourcing liquidity for other client orders that are unrelated to a benchmark fixing, or acting as a market

maker or engaging in risk management activities. Such activities may cause BMO to execute unrelated FX transactions during a Fixing Window or at other times that may impact transactions relating to a benchmark fixing.

### **Information Handling**

Unless otherwise agreed, BMO may use the economic terms of a transaction in order to source liquidity and/or execute risk mitigating transactions. In addition, as part of its obligations as a regulated entity, BMO also shares client information as required by its global regulators. With regard to executed transactions, BMO analyses this information on an individual and aggregate basis for a variety of purposes, including risk management, sales coverage, and client relationship management. BMO may also analyse, comment on, and disclose anonymised and aggregated information regarding executed transactions, together with other relevant market information, internally and to third parties, as market colour. BMO has policies and procedures in place to govern the protection of client information and such information will not be shared externally outside BMO (other than where required for regulatory or audit purposes).

If you have questions after reading this letter or concerning BMO's dealings with you, we encourage you to contact your BMO sales representative. This disclosure is also available at (<https://capitalmarkets.bmo.com/en/about-us/regulatory/>) and may be updated from time to time in order to address changing regulatory, industry and other developments.