

# OUR APPROACH TO ORDER HANDLING AND EXECUTION

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## 1. Introduction

The purpose of this disclosure is to detail certain aspects of your trading relationship with Lloyds Bank (“us” or “we”) and to disclose our relevant practices when acting as a dealer, on a principal basis, in the foreign exchange (FX), rates, commodity, credit and Gilt markets.

The information below is relevant to your transactions with Lloyds Bank plc, Bank of Scotland plc, Lloyds Bank Corporate Markets plc (collectively “Lloyds Bank”).

We do not trade in an agency capacity nor do we act as fiduciary, financial advisor or in any similar capacity on behalf of a counterparty. Therefore, we do not undertake or accept any of the duties or obligations that an entity acting in such a capacity would ordinarily perform. Our sales and trading personnel, including any electronic solutions via which you interact with us, do not act as brokers or agents to a counterparty. Acting in a principal or riskless principal capacity, we generally operate in “request for quote” markets and provide you with a quote in a particular financial instrument.

Trading as principal in the FX, rates, commodity and Gilt markets, we may have proprietary positions in, and/or may make markets in these instruments. We also may make price submissions and price requests that contribute to the official closing price or other reference prices for these instruments. These trades and positions and our price submissions and price requests may affect the price you obtain on any quote or order for FX, rates, commodity, credit or Gilts that you place with us. You should be aware that unless otherwise instructed by you or prohibited by Applicable Regulation we may also pre-hedge potential client orders (trades and orders). Our intention in pre-hedging is to facilitate execution and reduce the potential market impact of filling your order (or executing your request), with the goal of achieving a better price outcome for you. However, there is no guarantee that the pre-hedging will have this outcome.

We, and our group of companies, and our directors, officers, employees, associates and agents may have an interest in any securities or financial product mentioned in this communication. We have internal systems, controls and procedures to ensure that conflicts of interest are identified and appropriately managed.

Any transaction which you enter into with us is on the basis that you are able to make your own independent evaluation based on your own knowledge, experience, and any professional advice which you may seek in relation to the financial, legal, regulatory, tax or accounting aspects of the proposed transaction.

## 2. Order handling and execution

For certain products in the FX, rates, commodity and Gilt markets we may be willing to accept a firm commitment to trade but where some trade parameters are not agreed with you prior to our execution of your order (for example, price, quantity, timing). Whether we will agree to accept such an order is completely at our discretion.

Where we are willing to accept such an order from you, the price at which we would do so may include relevant charges which will be added to the price at which we transact or may have transacted, in the market. It may include a fair and appropriate fee solely determined by Lloyds Bank

and will cover both a range of factors such as market execution costs depending on size, timing, currency pair and available liquidity and also infrastructure costs relating to assessment of credit, varying degrees of market risk funding and capital impact, execution venue fees, clearing fees and other day to day business costs. Unless otherwise stated, the price indicated by Lloyds Bank will be the 'all in price'.

Types of orders where some trading parameters are not pre-agreed include, but are not limited to:

- "limit order", which are orders to buy or sell when the market reaches a specified level;
- "at best" or "market" orders to buy at the best rate available; and
- "benchmark" orders to buy or sell at a reference price established by a third party at a particular point in time.

Where we accept such an order from you, we will enter it onto our order management systems and keep a record of order details in accordance with regulatory requirements.

For the avoidance of doubt, quote-driven activity such as requests for quotes, price streams, call levels and indications of interest do not meet the criteria to be considered orders. An order will only arise from such activities should we agree to trade a Financial Instrument where all trade parameters have been agreed and you have given us a firm instruction to deal.

Unless we have expressly agreed otherwise in the terms of execution, we will exercise our discretion appropriately determining which orders to execute, when to execute them and how to execute them, including whether to execute all or part of the order unless we have otherwise expressly agreed to different terms of execution. This means we may interact with the market prior to a level being breached, in order to achieve a level that is close to your order.

If there is not sufficient market liquidity your order may be partially filled, unless you have informed us that a partial fill is not acceptable. In the event of a partial fill we will disclose this to you, and we will ensure price is fair and reasonable based upon prevailing market circumstances.

We aim to execute your order fairly and promptly relative to other orders and our own account transactions. In the event that we receive multiple orders for the same product, we will execute the orders sequentially as they were received, unless the characteristics of the order or prevailing market conditions make this impracticable.

If you have any specific instructions, always ensure these are agreed before placing your order. Unless we have expressly agreed otherwise with you, all orders are considered live or 'good' until the close of the trading day, or until you withdraw or cancel the order in good time prior to us executing that order with you.

FX is a 24 hour market and in managing your orders we may utilise operational support to execute orders in a number of jurisdictions.

## **FX, Rates and Commodity limit orders**

As standard policy, stop loss orders, take profit orders or other limit orders will be executed on a 'best endeavours' basis. We cannot guarantee execution at the limit or level. As a result, the execution price may not be the same as the order limit but we will take all reasonable steps to minimise the difference. Market liquidity is variable and in disorderly markets this difference can be larger.

We do not exercise discretion unless specifically requested by you when executing FX and Rates, Commodity take profit and stop loss orders, and will execute the order immediately once the agreed level has been reached.

For Commodity orders only, these will be watched during the normal trading hours for the underlying Commodity, unless agreed more specifically with you. Any cancellations or amendments to a Commodity order can only be accepted during London business hours, and as

long as the order remains unfilled. Commodity orders will then be booked and affirmed by us during London business hours.

## FX and Commodity benchmarks

FX and Commodity Benchmark orders are considered a firm commitment to trade; any request to cancel or amend the order will be accepted at Lloyds discretion.

To execute your requested benchmark order/time related request, we may interact with the market between receiving your order and the time the benchmark is set. Depending on the size of your order and the prevailing market liquidity our interaction with the market may affect the price you obtain.

We recognise and have designated controls to mitigate the specific risks associated with benchmark orders. We have in place protocols to govern the management and execution of your FX and/or Commodity benchmark order to minimise any conflict of interests and undue impact on the market, and increased trader segregation when executing FX benchmark orders. For further information more generally about our relationship with the way certain benchmarks are determined, please refer to our Benchmark Transparency Statement.

## TradeWeb FTSE closing Gilt prices

We trade or may trade as principal in the securities or related derivatives included in this communication (“Relevant Securities”), and may have proprietary positions in, and/or may make markets in Relevant Securities. We also may make price submissions and price requests that contribute to the official closing price or other price fixing for the Relevant Securities. These trades and positions in the Relevant Securities and our price submissions and price requests may affect the price you obtain on any order for the Relevant Securities that you place with us. We, our group companies, and our directors, officers, employees, associates and agents may have an interest in any securities or financial product mentioned in this communication.

We are committed to adhering to the Standard on Reference Price Transactions published by the Fixed Income Currency and Commodities Markets Standard Board (FMSB). This is available at the [FMSB's website](#). We consider your order a Reference Price Transaction (RPT). Consistent with the FMSB Standards we may, at our discretion, hedge the risk to the bank associated with an RPT, and this hedging activity can take place before during or after any reference time in your order. You should note that any of our hedging transactions executed before the reference time could exert market pressure on the underlying instrument and affect the reference price level you receive.

## 3. Last look in FX

Lloyds Bank provides FX liquidity over electronic trading platforms, including our own ‘single dealer’ platform, Arena and our bilateral Application Programming Interface (API), both containing only our prices, as well as other ‘multi dealer’ platforms.

Whilst we always provide pricing with an intention to trade, these prices are indicative, and we may accept or reject a trade request at our discretion based on a number of pre-trade checks. This practice is known by market participants and described in the Market Standards and Codes of Conduct as ‘Last Look’.

Our ‘Last Look’ check includes a validity check, to confirm the request is valid from an operational, internal risk limit and credit perspective and a price check, to confirm the price at which the trade request is made remains consistent with our latest price information.

We only apply 'Last Look' in order to mitigate any impact of stale pricing due to latency, to protect against technology constraints, and as a risk control. Metrics on fill and reject ratios, along with rejected price and observable market prices are regularly reviewed to ensure outcomes are consistent with strategy. These metrics can be shared with you on request.

Lloyds Bank executes FX transactions in a principal capacity. In this capacity, Lloyds bank either takes on the market risk associated with a Client transaction or operates via a 'Cover and deal' arrangement.

Where Lloyds Bank takes on the market risk associated with a Client transaction, it is not active in the market during the Last Look window in relation to your trade request.

Where Lloyds Bank executes trades via 'Cover and deal' arrangement, Lloyds Bank seeks to avoid taking market risk when facilitating a Client's trade request. In this workflow, a Client's request for quote is relayed to our external Liquidity Providers. Then upon receiving a Client trade request, we will attempt to execute a transaction (or combination of transactions) with our Liquidity Providers to avoid taking on the market risk associated with the transaction, before making the decision to accept or reject the Client trade request. When acting in this capacity, Lloyds Bank's execution adheres to the standards set out in the Market Standards and Codes of Conduct specifically:

- i. Lloyds Bank will fill the Client's trade request without taking on market risk in connection with the trade request by first entering into offsetting transactions in the market; and
- ii. The volume traded by Lloyds Bank in relation to the Client's trade request in the Last Look window period will be passed on to the Client in its entirety.

In addition, Lloyds Bank operates in line with the 'Cover and Deal' guidelines outlined by Global FX Committee. Under the 'Cover and deal' arrangement, our Liquidity Providers may apply Last Look on your trade requests. We ensure that all our Liquidity Providers apply a symmetric Last Look price check. Also, when dealing 'Cover and deal' your trade request may be rejected, if our Liquidity Provider reject us. Lastly, the price at which we execute the offsetting transactions with our Liquidity Providers may be different to the price the Client's trade request is transacted. This may be due to our application of Cost and Charges to the Client request or due to price changes within the last look window where our Liquidity Providers have provided Lloyds bank a price improvement. Due to technological limitations, we are not able to pass these price improvements to our clients under the 'Cover and deal' model.

## **'Last Look' Price Check**

Our implementation of the 'Last Look' price check involves an assessment of the price on the trade request against our latest price information. If the latest price has moved more than a defined tolerance, we will reject the trade request. This assessment is made after the validity checks mentioned above and is applied symmetrically. Applying 'Last Look' symmetrically means that if the price has moved in either direction more than the defined tolerance, the trade request is rejected.

We do not apply a hold time (time delay) prior to the price check. This means that we perform a price check immediately after the validity checks are completed. The total time it takes to respond to a trade request will depend on the duration of the validity checks, the price check and trade booking. The overall time to respond will vary depending on technological factors and trade specific characteristics such as product type.

If during the booking process a technological issue occurs that will prevent the trade being booked, it is possible that the trade will still be rejected, however this is not expected in normal operations and would only occur as the result of a system failure. In addition, if due to technological reasons, we do not believe that there is enough time to book the trade before a trading venue will timeout the trade request, the trade request will also be rejected. Lastly, a trade request can also be rejected if the request is on a quote which is considered old. This happens when we have sent out at least one newer quote by the time we receive your trade request and the age of the request's quote is beyond our defined thresholds.

The price check tolerance controls may vary across platforms, client segments and vary depending on the client's individual trading style.

We do apply the 'Last Look' price check on multi dealer platforms; however we don't apply the price check to our single dealer platform, Arena. For our bilateral API, the use of the price check is dependent on the client's profile and technology factors. If the price check is to be applied to an API connection, this is disclosed to the client on an individual case basis. We can share with you the price check tolerance applied to your trade request, average times to respond to trade requests, and also our trade acceptance ratios. Please contact your Lloyds Bank representative for information on this.

#### **4. Relationship with other documents**

This disclosure supplements any other disclosures or agreements regarding such matters as we may provide to you or agree with you including, without limitation, any Terms of Business, if applicable, any Master Agreement for financial transactions between us, our other general disclosures as a swap dealer, our risk disclosures or such other disclosures as may be provided to you by us from time to time. This disclosure is not intended to conflict with or override any relevant law, regulatory rule or other applicable requirement in any jurisdiction in which we deal with you.

**If you have any questions about our FX, rates, gilts or commodity product offering in general, or e- FX services in particular, please contact your Lloyds Bank representative.**

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