

## **Treasury Order Execution Policy for Retail and Professional Clients**

**Effective from 3 January 2019**

## INTRODUCTION

This Order Execution Policy (the “**Policy**”) sets out the approach of the Treasury division of Allied Irish Banks, p.l.c (Dublin branch and London branch) and AIB Group (UK) p.l.c. (together, “**we**” or “**our**”) to comply with the best execution obligation under the Markets in Financial Instruments Directive 2014/65/EU (**MiFID II**), when executing certain foreign exchange transactions, interest rate derivative transactions or money market transactions on behalf of our professional and retail clients (as defined by MiFID II).

Best execution is the requirement for us to take all sufficient steps to obtain, when executing orders, the best possible result for our clients taking into account all relevant factors on a consistent basis. The meaning of best possible result will vary depending on the circumstances and we must take into account a range of execution factors such as price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of an order. The relative importance of execution factors will depend on the characteristics of our clients, the order, the financial instrument and execution venues or market. Price will ordinarily merit a high relative importance in obtaining the best possible result. However, in some circumstances, for some clients, orders, financial instruments, execution venues and/or markets, we may appropriately determine that other execution factors are more important than price or costs in obtaining the best possible execution result. These factors are further described in this Policy.

Aside from the explicit best execution obligation explained in this Policy, we have an overriding duty to act honestly, fairly and professionally in accordance with the best interests of all our clients.

This Policy provides an overview of how we execute orders on behalf of retail and professional clients, the factors that can affect the timing of execution and the way in which market volatility plays a part in handling orders when buying or selling a financial instrument.

Upon acceptance of a client order and when there is no specific client instruction regarding the execution method, we will execute an order in accordance with this Policy.

The Policy is available on our websites which will be updated whenever the Policy is updated:

<https://aib.ie/fxcentre/resource-centre/regulatory-information>

<https://aibgb.co.uk/fxcentre/resource-centre/regulatory-information>

<https://firsttrustbank.co.uk/fxcentre/resource-centre/regulatory-information>

Upon request from a client, and provided that the order was subject to the requirements of the Policy, we will demonstrate to the client that we have executed its order in accordance with this Policy. We keep records relating to best execution obligations, for a minimum period of 5 years in accordance with MiFID II and/or other local regulatory requirements.

## BACKGROUND TO MiFID II

The European legal framework governing financial markets (being the Markets in Financial Instruments Directive (MiFID I) is being replaced by a recast Directive – the Markets in Financial Instruments Directive (Directive 204/65/EU)) (MiFID II) and a new Regulation (MiFIR – the Markets in Financial Instruments Regulation (Regulation (EU) No 600/204)).

MiFID II and MiFIR are part of the EU's response to the evolving nature of the financial markets and address concerns regarding investor protection. The revised legislation builds on the existing framework to improve the efficiency, resilience and transparency of financial markets and also to take into account developments in the trading environment since the introduction of MiFID I in 2007.

MiFID II will apply from 3 January 2018.

## MiFID II - CLIENT CATEGORISATION

Clients who enter into a transaction in a MiFID II financial instrument will be classified by us into at least one of the following client categories:

- Eligible Counterparty
- Professional Client
- Retail Client

The classification of a client depends on their level of knowledge and understanding of the various products and services offered by us. A client will be notified, in writing, of their client classification.

It may be possible, in certain circumstances, for a client to request that their classification be changed.

## SCOPE OF POLICY - CLIENTS

This Policy applies to both Professional and Retail Clients (within the meaning of MiFID II). Unless otherwise stated, this Policy applies to such clients in the same way, regardless of whether they are an elective Professional Client (via an opt-up or opt-down mechanism) or a per se Professional Client or Retail Client.

This Policy, and the best execution obligation under MiFID II, does not apply to Eligible Counterparties. Accordingly, we will not owe a duty of best execution in relation to transactions entered into with Eligible Counterparties, unless we specifically agree otherwise.

## WHAT PRODUCTS DOES THE BEST EXECUTION OBLIGATION APPLY TO?

MiFID II, and the best execution obligation under it, applies to **financial instruments**. Financial instruments is broadly defined in MiFID II and includes, but is not limited to, transferable securities, such as shares and bonds, units in funds and structured products, as well as derivative contracts, such as options, forwards, futures and swaps, whether publically listed or not, in relation to FX/currencies, interest rates and inflation rates as well as many other financial and commercial variables including commodities, contracts for differences and emissions allowances. The list of "financial instruments" as defined in MiFID II is set out in Appendix 1 of this Policy.

Spot transactions, including those spot transactions in FX and commodities, are not regarded as "financial instruments". Other non-MiFID II business, for example business concerning loan agreements and deposits, are not covered by this Policy unless otherwise specified.

Please note that, whether or not this Policy applies to the relevant product, we are committed to acting honestly, fairly and professionally in accordance with the best interests of our clients in relation to all the business we conduct.

## FX TRANSACTIONS THAT THE BEST EXECUTION OBLIGATION DOES NOT APPLY TO

There are two categories of derivative contracts relating to currencies that are not subject to the requirements of MiFID II. These are: (a) where the FX contract is a spot FX contract, as defined in MiFID II; and (b) where the FX contract is a means of payment, within the parameters outlined in MiFID II. The details of each category are set out below.

### *(a) A spot FX contract.*

A spot FX contract is a transaction for the exchange of one currency against another currency, where the settlement dates are not more than:

- 2 trading days for trades between “major currencies”. The major currencies for these purposes are euro, US dollar, Japanese Yen, Pound Sterling, Australian dollar, Swiss franc, Canadian dollar, Hong Kong dollar, Swedish krona, New Zealand dollar, Singapore dollar, Norwegian krone, Mexican peso, Croatian kuna, Bulgarian lev, Czech koruna, Danish krone, Hungarian forint, Polish zloty and Romanian leu.
- For other currencies, the longer of 2 trading days or the period generally accepted in the market as the standard delivery period for the relevant currency pair.
- Where the contract is for the sale or purchase of a transferable security or a unit in a collective investment undertaking, the period generally accepted in the market for the settlement of that security or unit as the standard delivery period or 5 trading days, whichever is shorter.

A contract will not be considered to be a spot contract where, irrespective of its explicit terms, there is an understanding between the parties to the contract that delivery of the currency is to be postponed and not to be performed within 2 trading days.

### *(b) A means of payment FX transaction*

A FX transaction will not be subject to the requirements of MiFID II if it is a means of payment that:

- must be **physically settled** otherwise than by reason of a default or other termination event;
- is entered into by at least a person which is **not a financial counterparty** within the meaning of the European Markets Infrastructure Regulation (EMIR);
- is entered into in order to facilitate **payment for identifiable goods**, services or direct investment; and
- is **not traded on a trading venue** within the meaning of MiFID II.

All four of these criteria must be satisfied in order for the FX transaction to fall within this means of payment category of FX transaction.

## WHEN DOES BEST EXECUTION APPLY?

We owe a duty of best execution to clients when executing orders on their behalf and where a client legitimately relies on us to protect their interests in relation to pricing and other important elements of a transaction. We will also owe best execution when we are transmitting orders on behalf of a client to a third party broker for execution.

Where we deal as principal with a client in relation to a MiFID financial instrument, this falls within the concept of us executing a client order. If a client is categorised as a retail client, they are likely to legitimately be relying upon us to protect their interests where we execute their order by dealing as agent, by acting as a riskless agent on their behalf and where we execute their order against our own proprietary position.

We will not owe a duty of best execution where we have been requested by a client to provide a price(s) via third party electronic systems and the client decides to deal at the prices displayed and executes the order on the third party's platform.

## HOW WE PROVIDE BEST EXECUTION TO RETAIL CLIENTS

We will apply Best Execution to transactions with retail clients dealing in relevant Financial Instruments (as defined in MiFID II and set out in Appendix 1) unless otherwise agreed.

When dealing with or executing an order on behalf of a retail client, our provision of best execution will be determined primarily in terms of "Total Consideration".

Total Consideration is the price of the relevant financial instrument, including the costs related to execution. These costs will include all expenses incurred which are directly related to the execution of the order (such as execution venue fees, clearing and settlement fees and any other fees paid to third parties involved in the execution of the order). We shall also take into account the effect of our own commission, mark-up or margin on the total consideration to the client.

Under the best execution rules, total consideration is the defining execution factor for retail clients. For retail client orders, the Execution Factors (as defined below) will also be considered but will be given precedence over the immediate price and cost consideration only insofar as they are instrumental in delivering the best possible result in terms of the Total Consideration to the client.

A full explanation of how we price transactions on behalf of clients is provided below.

## HOW WE PROVIDE BEST EXECUTION TO PROFESSIONAL CLIENTS

When dealing with or executing an order on behalf of a professional client that legitimately relies upon us when executing their order, we will take into consideration the range of Execution Factors (as set out below) when determining the best possible result for orders executed on behalf of a client. Price will usually merit a relatively high importance in obtaining the best possible result. However, in some circumstances and in relation to some professional clients, other execution factors are more important than price in obtaining the best possible execution result.

## EXECUTION FACTORS

In order to satisfy our obligations of Best Execution, we have a number of policies and processes in place which are designed to take sufficient steps to obtain the best possible result for the client on a consistent basis, taking into account all relevant factors on a consistent basis.

### Execution Factors

We will take into account a number of factors, including:

- available price in the market;
- transaction costs (including fees charged for execution on any particular venue, and clearing and settlement costs);
- speed of execution;
- the likelihood of execution and settlement (depending on liquidity in the particular market);
- the size and nature of the transaction; and
- any other consideration that we deem to be relevant to the execution of that transaction.

### Execution Criteria

We will take into account the following criteria for determining the relative importance of the execution factors as above:

- the characteristics of the client (including whether the client is classified as Retail or Professional);
- the characteristics of the transaction (including the type of transaction, size and likely market impact);
- the characteristics of the Financial Instrument to which the transaction relates;
- the characteristics of the execution venues to which the transaction can be directed; and
- any other circumstances that we deem to be relevant to the execution of that transaction.

### General Application of the Execution Factors

Generally, we will regard price as the most significant factor in the execution of a client's order. In some circumstances we may use our discretion to place a higher importance on the other factors referred to in order to provide you with the best possible result. For example, in times of severe market disruption; in the event of a system outage; when transacting a large order, confidentiality may be more important; when trading an illiquid product, certainty of execution may be more important, for example.

In taking all sufficient steps, our front office staff will use their commercial judgement and experience in light of available market information to achieve the best balance across a range of sometimes conflicting factors. This does not mean achieving the best price for every client order, but the best possible result that can reasonably be expected given the resources available to our front office staff, whilst at the same time treating all of our clients fairly.

When executing orders or taking decision to deal in OTC products including bespoke products, we check the fairness of the price proposed to the client, by gathering market data used in the estimation of the price of such product and, where possible, by comparing with similar or comparable products.

In certain financial instruments, there may only be one execution venue. In executing a trade in these circumstances, we will try to validate the price at which we are trading by all available means but we may not be able to obtain the same level of comfort that the price is truly the best available as we would if an instrument was available on multiple venues or otherwise widely traded.

## EXECUTION VENUES

We use automated systems to route and execute some client orders. When a client order is received by us, it may be routed to the execution venue that we consider to generally provide the Best Execution or kept in house for products which we may choose to trade against its own proprietary desk.

The following are the different types of venues available to us:

- **Regulated Markets**, a type of trading venue, as defined under MiFID II;
- **Multilateral Trading Facilities** (“MTFs”), a type of trading venue, as defined under MiFID II;
- **Organised Trading Facilities** (“OTFs”), a type of trading venue, as defined under MiFID II;
- **Electronic platforms;**
- **Our own internal sources of liquidity;**
- **Other brokers, dealers, market makers and liquidity providers.**
- **Systematic Internalisers.** These are firms that execute orders from their clients against their own book or against orders from other clients at a sufficient frequency and volume that mean they satisfy the criteria for becoming as Systematic Internaliser, as defined under MiFID II.

Appendix 2 of this Policy includes details of execution venues in respect of each class of financial instrument which we access when executing client orders. We consider that participation in these execution venues will enable us to obtain on a consistent basis the best possible result for the execution of client orders.

We will use reasonable endeavours not to discriminate unfairly between execution venues. Furthermore, we will not structure or charge commissions or margins in such a way as to discriminate unfairly between execution venues.

In the event of system disruption, irregularities, breakdown or exceptional market conditions beyond our reasonable control, we may execute transactions on other trading venues than those mentioned in the list of execution venues published in Appendix 2 of this document. Even in such exceptional circumstances, we will always try to obtain best execution in whatever method we may choose.

## SELECTION OF EXECUTION VENUES AND BROKERS

Unless we agree otherwise with our Professional and Retail Clients, we will use a selection of Execution Venues reviewed periodically by us. We will summarise and publish annually our top five execution venues by trading volume for each class of relevant financial instrument, as well as information on the quality of execution obtained. This information will be published on <https://fxcentre.aib.ie/> <https://aibgb.co.uk/fxcentre> and <https://firsttrustbank.co.uk/fxcentre>.

Execution venues are required to publish relevant data required under MiFID II to allow firms to measure the quality of execution. We will regularly review data published by execution venues including information on trading conditions and quality of execution across different execution venues through a series of metrics including volume, frequency of trading, resilience and execution price related information.

Execution venues are selected on the basis that they enable us to obtain, on a consistent basis, the best possible result for the execution of client orders. When selecting an execution venue we will consider a number of factors to determine their efficacy and their fitness for purpose. These factors are usually ranked in terms of relative importance as follows:

- **Liquidity and Probability of Execution** is a dominant factor.
- **Costs and Prices Spread** of transacting across a venue.
- **Resilience and Reliability** of an execution venue in relation to the pricing and quality of service it can offer.
- **Credit and Settlement Risk** - Credit approval may be required in certain cases to ensure sufficient trading and settlement limits are available.

We do not receive any remuneration, discount or non-monetary benefit for routing client orders to a particular trading venue or execution venue which would infringe the requirements on conflicts of interest or inducements set out in the MiFID II.

From time to time, we may use other brokers on a case-by-case basis, provided that the other Best Execution factors are not compromised and that we are able to conduct business with that broker. We do not conduct any activity with a new broker until the screening and approval process has been completed.

However, we are not under any obligation to check a variety of brokers with respect to each transaction.

We are entitled to settle the client's order against our own account, but we will always be obliged to observe rules regulating conflicts of interest and meet our best execution obligations.

We will, on request, provide further details to you of the execution venues included in this Policy.

## MANDATORY OBLIGATION TO TRANSACT CERTAIN DERIVATIVES ON A TRADING VENUE

Under MiFID II, there is an obligation for certain standardised and liquid derivatives to be traded on a regulated trading venue (a regulated market, a MTF or an OFT). This mandatory trading obligation will apply to clients who are categorised as financial counterparties (FCs) and non-financial counterparties above the clearing threshold (NFC+) under the European legislation known as EMIR (the European Markets Infrastructure Regulation).



## SPECIFIC INSTRUCTIONS

If a client provides us with specific instructions in relation to their order we will follow those instructions. These may include specifying the characteristics of a bespoke product, either relating to an order or a particular aspect of an order. We will execute so far as is reasonably possible in accordance with those instructions. **However, specifics of the instruction may prevent us from taking the steps that we have put in place to obtain the best possible result for the execution of client orders with respect to the elements impacted by such specific instructions.** In following client instructions we will be deemed to have met our obligation to take all reasonable steps to provide a client with the best possible result.

## AIB TREASURY PRICING POLICY & PROCESS

The AIB Treasury pricing policy underpins our commitment in respect of ensuring that in all our business dealings with our clients we fulfil our obligation to treat them fairly.

The Customer Treasury Services (“CTS”) sales process, and the management oversight of that process, is designed to ensure that our interaction with our clients is both professional and fair.

In managing the pricing aspect of the client relationship, Customer Treasury Services is cognisant of the need to ensure an appropriate balance is struck between achieving the best possible result for a client in each unique pricing situation and the need for us to achieve an appropriate level of economic return for that transaction, recognising the level of capital and resources committed to supporting a best in class Treasury service and the level of market and credit risk assumed by us in the transaction.

## SOURCE OF AIB TREASURY PRICING

All prices delivered to clients on an Over-the-Counter (OTC) basis by Customer Treasury Services teams are constructed in a similar fashion. The first step in the construction of a price is to determine the appropriate price of the financial instrument in question (the ‘base’ price).

The base price of the relevant financial instrument is calculated as follow:

- Market price is established by the relevant Wholesale Trading Desk with reference to market standard price sources.
- Bid/offer spread is applied by the Trading Desk, taking account of the size of the transaction, whether it is vanilla, off-the-run, bespoke, complex, and also taking into account the prevailing liquidity of the marketplace.
- XVA costs are applied by the Trading Desk, covering FVA (Funding Valuation Adjustment), CVA (Credit Valuation Adjustment) and clearing costs.

The Customer Treasury Services’ relationship manager, having established the base price from the Trading Desk, will then apply a transaction margin. The transaction margin is charged by Customer Treasury Services is negotiable and determined to be appropriate, taking into consideration a variety of factors, including:

- Service level provided;
- Operational costs;
- Regulatory reporting costs associated with the transaction
- Any other factor relevant to the transaction.

The price, costs and sales margin will vary depending on the client and transaction. As these factors may vary, we may offer different prices to different clients for the same or similar transactions or components of such transactions. For any given client, different mark-up levels may apply to different types of trade requests, depending upon the factors noted above.

We will provide a client with the base price of the financial instrument and any mark-up, both at the point of sale, as well as in the subsequent confirmation except where the client request to provide a price has come via third party electronic systems.

### **BEST EXECUTION BY ASSET CLASS**

This Policy includes, for each Financial Instrument in which we execute orders on behalf of clients, those venues that we consider enable us to obtain on a consistent basis Best Execution. These venues are listed in Execution Venues – Appendix 2.

The Asset Classes and instruments therein are as follows:

#### **FX Forwards/Swaps**

##### ***Products in scope***

- FX Forwards
- FX Swaps

(excludes FX Spot, Means of Payment FX Forwards and FX Options)

#### **FX Options**

##### ***Products in scope***

- FX Options

#### **Interest Rate Derivatives**

##### ***Products in scope***

- Interest Rate Swaps, Caps, Floors, Collars

#### **Money Market Instruments**

##### ***Products in scope***

- certain Money Markets products

## Types of orders received

RFQs and negotiated price transactions:

We will provide Best Execution where applicable for RFQs and negotiated price transactions by using our professional judgement to determine the Best Execution price based on the specifics of the Financial Instrument, the prevailing liquidity and other relevant execution factors.

## List of execution venues

- Our own internal sources of liquidity, where we will be your counterparty
- Other brokers, dealers, market makers, liquidity providers and electronic platforms

## Relevant execution factors

The most important execution factors we will take into account to obtain Best Execution for transactions in FX Forwards, FX Swaps are price, size and speed of execution. The priority of any one of these factors over the others will depend upon the specific instructions from the client. If no instructions are received, we will generally use the following order of priority:

- **Price.** We use our access to all available liquidity channels to achieve the best price for the client.
- **Size.** We will use our access to all available liquidity channels to attempt to execute the full size of the client transaction given the prevailing market conditions and instructions of the client. We will assume that partial fills are acceptable unless the client indicates otherwise. A partial fill occurs where we are unable, due to market conditions, to satisfy the whole of the client transaction and hence only provides the client with a part of its requested transaction.
- **Speed.** We will endeavour to execute the transaction as soon as is practical given the prevailing market conditions and the instructions of the client.

## MONITORING & REVIEW

We will review this Policy, including its appendices, at least annually or when any material changes in our business occur which may affect our ability to obtain the best results for our clients and will amend this Policy on the basis of such reviews. We will also notify you of any material changes to our order execution arrangements or this Policy by posting an updated version of this Policy on our websites at:

<https://aib.ie/fxcentre/resource-centre/regulatory-information>,

<https://aibgb.co.uk/fxcentre/resource-centre/regulatory-information>

<https://firsttrustbank.co.uk/fxcentre/resource-centre/regulatory-information>

Clients may also request the most recent copy free of charge via the contact details provided in this document, or from their usual contact in Treasury.

Where a client makes a reasonable and proportionate request for information about our policies or arrangements and how they are reviewed, we will respond clearly and within a reasonable amount of time.

**Contact details for Best Execution enquiries:**

**AIB Treasury Assurance**

**Phone: (01) 6418799.**

**E-mail: [treasury.assurance@aib.ie](mailto:treasury.assurance@aib.ie)**

## Appendix 1 – List of Financial Instruments

- (1) Transferable securities;
- (2) Money-market instruments;
- (3) Units in collective investment undertakings;
- (4) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
- (5) Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event;
- (6) Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market, a MTF, or an OTF, except for wholesale energy products traded on an OTF that must be physically settled;
- (7) Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 of this Section and not being for commercial purposes, which have the characteristics of other derivative financial instruments;
- (8) Derivative instruments for the transfer of credit risk;
- (9) Financial contracts for differences;
- (10) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF, or an MTF;
- (11) Emission allowances consisting of any units recognised for compliance with the requirements of Directive 2003/87/EC (Emissions Trading Scheme).

## Appendix 2 – List of Execution Venues

This list of Execution Venues on which an order placed by a retail or professional client may be executed is contained below, broken down by category of Financial Instrument.

This list is not exhaustive and we expressly reserve the right to execute our client orders on other execution venues that are compatible with our Policy. Where we act as an execution venue in respect of OTC Transactions we will have regard for the wider market in the relevant product, taking into account information sources reasonably available to meet our best execution obligation.

We may execute a client order outside a trading venue. Execution of orders outside a trading venue gives rise to certain risks including counterparty risk. We can provide you with further information about the consequences of this means of execution upon client request.

### FX Forwards & Swaps

- 360T
- FxAll
- Bloomberg FX Trading
- Reuters FX Trading

### Interest Rate Swaps

- Tradeweb
- Bloomberg IRS Trading

### Options

- Bloomberg FXGO
- Deutsche Autobahn
- UBS Neo

### Bonds

- Tradeweb
- Bloomberg ALLQ

Please note that telephone calls may be recorded in line with market practice.