

## Basic Policy Regarding Foreign Exchange Transactions

December 28, 2017

Sumitomo Mitsui Trust Bank, Limited

### 1. Introduction

- (1) This basic policy regarding foreign exchange (FX) transactions (hereinafter referred to as this “Basic Policy”) aims to provide information that is particularly important for customers when Sumitomo Mitsui Trust Bank, Limited (hereinafter referred to as the “Bank”) engages in FX transaction business in accordance with the FX Global Code<sup>1</sup>.
- (2) This Basic Policy applies to all customers excluding individuals, provided that if any provision in this Basic Policy is inconsistent with conditions individually contracted or agreed with a customer, the conditions so contracted or agreed with the customer will prevail.
- (3) We would be grateful if customers could review this Basic Policy in connection with future FX transactions with the Bank.

### 2. Relationship between Customers and the Bank in Transactions

- (1) The Bank is a dealer and also a market maker in the FX market. Therefore, the Bank engages in price quotation for, acceptance of orders of, and the execution of transactions and other related activities.
- (2) The Bank will, in principle, engage in FX transaction business as a principal<sup>2</sup> unless it enters into an individual arrangement with a customer. In other words, the Bank will not act as an agent<sup>3</sup>, a trustee or a financial adviser or in any other similar capacity.
- (3) Please note that when the Bank executes FX transactions as a market maker, there can be a conflict of interest between the Bank and a customer. In relation to FX transactions, the Bank will perform its businesses in good faith and will understand and comply with all laws, rules and regulations that apply to the FX market.

### 3. Execution of Transactions

- (1) In relation to FX transactions, the Bank will perform its business in good faith and with transparency and fairness, and will endeavor to enhance customers’ understanding of FX transactions by providing customers with useful information in a timely and appropriate manner.
- (2) A customer may use telephone, emails, an electronic platform or other means as ways to contact and place orders with the Bank in relation to FX transactions.

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<sup>1</sup> The code of conduct that was launched in May 2017 as a common global code of conduct in the FX market by the working group of the Bank for International Settlements (BIS).

<sup>2</sup> A principal means a market participant that carries out transactions in its own name, and a principal acts taking on the risks in connection with orders, including the market risk and the credit risk.

<sup>3</sup> An agent means a market participant that does not itself take the market risk in connection with orders and executes transactions on behalf of its customers pursuant to the instructions from the customers.

- (3) In transactions with customers, the Bank may use an electronic platform provided by an external vendor and quote the exchange rates to customers on the basis of the specifications of such platform.
- (4) When the Bank judges that the execution of an order of a customer (whether in part or in whole) is completed, a transaction is deemed to be concluded, and the market risk transfers to the customer at the time of the conclusion of the transaction.
- (5) In order to meet customers' requests on transactions, the Bank has reasonable discretion on issues such as whether to handle the customer's order concurrently with other customers' orders, whether to handle orders in accordance with the time of each order, whether to execute the order by electronic means or manually, whether to execute the order or not, when and how to execute the order, and whether to execute the order in part or in whole, unless there is any specific agreement to that effect.
- (6) For the purpose of responding to customers' requests on transactions promptly and managing the Bank's own risks, the Bank may make a cover deal by means that the Bank considers to be appropriate before conducting a transaction with a customer (pre-hedging). When the Bank carries out pre-hedging, it does so without any intention to disadvantage the customer or disrupt the market. Pre-hedging may affect the price that the Bank can quote for each transaction to a customer and the market liquidity necessary for the Bank to execute a transaction requested by a customer, and may bring profit or loss to the Bank.
- (7) For risk management, securing liquidity or other reasons, other customers' transactions can be executed at a level close to the limit price of a customer's limit order or other relevant standards. The execution of other customers' transactions may impact the exchange rate and trigger a customer's stop order (e.g. an order to stop losses).
- (8) An exchange rate quoted by the Bank is determined as a result of a general and comprehensive judgment by referring to various information including supply and demand, liquidity, events, indices and other relevant factors. Customers may also inquire into the reference price (including the highest amount and the lowest amount) from the Bank.
- (9) Unless otherwise agreed, a customer's final transaction price will be a price which includes the markup (i.e. an all-in rate). The markup is a spread or a fee payable to the Bank in consideration for risks taken by the Bank, expenses, services provided to specific customers by the Bank and other relevant elements. The markup will be determined on the basis of the relevant currencies, the amount and period of the transaction, the market environment (such as liquidity and events), the customer's credit status and transaction status and other relevant elements. Even in the same kind of or similar transactions, different transaction prices can be set depending on each customer's credit status, the market environment and other relevant elements. The Bank is not obliged to disclose the amount of its income from a transaction and the breakdown of the all-in rate. In the event of a limit order, even if the actual market price reaches the limit price, the order may not be executed in some cases, for example, where the rate including the markup has not

reached the limit price.

- (10) Orders of transactions to be carried out with a specific FX index rate<sup>4</sup> will be handled based on appropriate information management and appropriate execution policy by establishing operational rules within the Bank.

#### **4. Handling of Information**

- (1) The Bank considers it extremely important to protect customer information and endeavors to ensure the confidentiality and security of customer information by properly establishing management rules; provided, however, that the Bank may, as part of its obligations to supervisory and other authorities, disclose customer information upon the request of these authorities.
- (2) The Bank may utilize information regarding the transaction conditions for a customer in order to execute transactions aimed at hedging, risk management or risk mitigation for the purpose of responding to the customer's requests. Information regarding executed transactions may be utilized for analysis for the purpose of risk management, marketing, pricing for transactions or other relevant purposes.
- (3) After appropriate aggregation, anonymization and generalization of information regarding customers' orders and executed transactions, the Bank may analyze such information as market color<sup>5</sup> in combination with other relevant market information, and share within the Bank or disclose to a third party that information.

#### **5. Revision of This Basic Policy**

This Basic Policy may be revised in consideration of changes to laws, rules and regulations applicable to the FX market and to the environment surrounding the Bank and other relevant factors. Any revision of this Basic Policy will be notified by posting the same on the Bank's website.

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<sup>4</sup> The public exchange rate (*kouji (kouhyou) souba*) announced by the Bank is not an FX index rate. In addition, the public exchange rate is not necessarily the actual market rate at the times of the relevant transaction and is subject to change depending on the actual market rate.

<sup>5</sup> A view shared by market participants on the general status and trends of the market.