# Information Sheet Foreign Exchange Derivatives Services Provision ABN AMRO through Franx

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## 1. Introduction

This information sheet provides an overview of what Foreign Exchange Derivatives Service Provision means for ABN AMRO. Investment firms are required by law to provide their clients with a general description of the nature and risks of financial instruments. This document provides that information with respect to Foreign Exchange Derivative Transactions that you may enter into with ABN AMRO through the Franx Platform. It provides a global overview of the main financial instruments and their associated risks, but does not provide an exhaustive overview of all possible risks in relation to each specific product.

Further, the information provided in this information sheet should not be considered investment advice based on your business situation nor a recommendation to deal in the products mentioned. You should always consider the suitability and appropriateness of these products and services in relation to your particular business situation and the financial position of your company.

## 2. Purpose of the information

After reading this information sheet, it is intended that you will be aware of the nature and specific risks inherent in Foreign Exchange Derivative Transactions that ABN AMRO offers you through Franx. The information in this brochure and the description of the financial instruments in available Product Information Sheets are intended to explain how these products can support your specific foreign currency risk management objectives.

If Foreign Exchange Derivative Transactions are entered into inadequately, this may result in undesired risks and (high) costs, or cause losses. Risk factors may combine to cause an unexpected effect on the value of a Foreign Exchange Derivative Transaction. If the meaning of the information included is unclear or incomplete for your situation, we advise you to consult an independent (financial) advisor.

## 3. Division of customers into customer categories

ABN AMRO and Franx are required by law to categorise a Client in the execution of their services. A Client is classified by ABN AMRO and/or Franx in one of the following client categories: "non-professional investor", "professional investor" or "eligible counterparty".
The classification into a customer category is decisive for the level of protection to which you are entitled. ABN AMRO and Franx have classified you in the client category 'non-professional investor' and will inform you of this prior to providing our services. The starting point is that your classification applies to all services and products you purchase from ABN AMRO and Franx.

A 'non-professional investor' receives the highest level of protection. This protection consists mainly of an assessment of your knowledge and experience before you purchase a service or product. This test will, if necessary, be followed by a warning if, in the opinion of ABN AMRO or Franx, that service or product is not suitable for you. The non-professional investor receives this level of protection because he/she - presumably - has less market knowledge and experience.

## 4. Risks

ABN AMRO and Franx do not act as your adviser. You should only trade in Foreign Exchange Derivative Transaction if you are aware of the nature and risks of these financial instruments. If poorly or inadequately applied, they may result in undesirable risks and (high) costs, or cause losses. Risk factors may combine and/or combine to have an unexpected effect on the value of your transaction(s). When dealing in Foreign Exchange Derivative Transactions with ABN AMRO through Franx, ABN AMRO always acts as your counterparty (contracting party), with an independent interest that may be contrary to your interest. ABN AMRO has a policy on conflicts of interest. You can find it on the ABN AMRO website.

## 5. Execution-only Services

When executing transactions, you make use of Franx's Platform. This is an execution-only service. Orders that you give through this direct channel are considered to be executed on your initiative and not on the advice of ABN AMRO and/or Franx. Since you are classified as a non-professional investor, ABN AMRO will ask you for information regarding your knowledge of and experience with the type of Foreign Exchange Derivative Transactions to which the execution-only service relates. ABN AMRO will check whether the type of Foreign Exchange Derivative Transactions you propose is appropriate for you, given the information you have provided regarding your knowledge and experience. In this context, ABN AMRO will check, amongst other things, whether you have the necessary knowledge and experience to understand the risks associated with the Foreign Exchange Derivative Transactions. If ABN AMRO is of the opinion that the intended type of Foreign Exchange Derivative Transaction is not suitable for you, ABN AMRO rejects execution-only services. In the execution-only service ABN AMRO is not obliged to test the suitability of each transaction.

## 6. What are foreign exchange derivatives?

A Foreign Exchange Derivative Transaction is an over-the-counter (OTC) transaction between you and ABN AMRO. These are financial instruments that are not listed on a regulated stock exchange and are used to hedge (future) financial risks or to obtain an additional return on an investment.

Foreign Exchange Derivative Transactions include transactions in the form of an FX Forwards and FX Swap. They are agreements between two parties, the value of which is based on the development of a so-called underlying base value. This underlying value can be a foreign currency. ABN AMRO offers Foreign Exchange Derivative Transactions solely for the purpose of hedging financial risks.

There are a number of differences between exchange-traded derivatives and foreign exchange derivatives that are not listed on a regulated exchange:

- Trading in foreign exchange derivatives can sometimes be an illiquid market with the result that it is not always possible to close or sell positions at a favourable price;
- Furthermore, in a foreign exchange derivatives transaction, the parties know each other's identity and investigate the creditworthiness of their counterparty. When trading on an exchange, the contracting parties do not know each other: a clearing house guarantees the fulfilment of the obligations arising from the transaction; and
- Finally, unlike exchange traded derivatives, foreign exchange derivatives are not transferable without permission.

*FX Forward transaction*

A foreign exchange derivative transaction is an agreement between two parties to exchange, at a certain point in the future (the "value date"), a quantity of one currency against a quantity of another currency at a pre-determined forward rate. The exchange rate on the value date is thus fixed for both parties. It cannot be influenced by exchange rate movements between the closing date and the value date. The agreed forward rate is made up of two components: The rate applicable at the time of conclusion for transactions with immediate delivery: the spot rate; and The interest rate differential between the two currencies involved for the period from the closing date to the agreed value date.

*FX swap*

An FX swap is an agreement between two parties to buy (or sell) a quantity of a given currency at the spot rate and to sell (or buy) that same quantity at a later date at the 'forward rate'. An FX swap thus consists of two transaction components: an immediate delivery transaction and a forward exchange transaction.

ABN AMRO offers Foreign Exchange Derivative Transactions exclusively for hedging business risks. ABN AMRO's objective is to offer products for the customer's risk management. You must at all times independently verify, evaluate and interpret the information provided. This applies to the market situation and market developments, but also to your legal, tax, accounting and credit position. Foreign Exchange Derivative Transactions concluded with ABN AMRO at the initiative of the customer are intended to hedge business risks. They must therefore be based on an international (trade) transaction.

## 7. Position of parties in an OTC transaction

In Foreign Exchange Derivative Transactions, ABN AMRO acts as your contracting party. ABN AMRO has an independent interest in this context which may be conflicting with your interest. ABN AMRO can provide you with information on the operation of a Foreign Exchange Derivative Transaction. This does not mean that ABN AMRO thereby acts as your investment advisor. You must always independently read and assess the information provided. You must also independently assess the market situation and market developments, as well as your legal, tax, accounting and credit position.

## 8. Hedgen

Hedging means covering (future) financial risks that may arise from (adverse) price fluctuations in the market. This includes price fluctuations in interest rates, currencies and commodities. Hedging also involves a risk. If the actual price fluctuations deviate from your expectations with regard to the price developments in the market, you may conclude - with hindsight - that it would have been better to choose a different strategy. You determine the level of risk at the time the transaction is concluded on the basis of variables you have accepted.

## 9. Documentation

If you wish to enter into a Foreign Exchange Derivative Transaction with ABN AMRO, the Condition of Foreign Exchange Derivatives Service Provision ABN AMRO Bank N.V. through Franx B.V. (CFEDSP) apply to your transaction. In addition, you enter into the Foreign Exchange Derivatives Service Provision Agreement ABN AMRO through Franx.

## 10. Product information

For each product variant, a separate product information sheet is available, which explains the specific properties and risks of that variant. It is important that you read this information. Your decision to enter into a particular OTC derivative is deemed to be based on the information in the specific product information sheet and the information in this Information Sheet.

## 11. Derivative risks

Entering into positions in OTC derivatives can have various consequences. While it reduces risk for one party, it creates risk for another. Below we provide a general overview of the possible financial risks that can occur when trading derivatives. Be aware of these risks if you decide to trade in derivatives to reduce your business risks. We recommend that you only enter into a derivatives transaction if you fully understand the nature and risks of the transaction. If you are unsure, seek further information on the risks involved from an independent adviser. The risks you run on your derivative positions depend very much on market developments and fluctuations in the financial markets. These are events over which Franx has little or no influence. The degree of risk can differ per type of transaction. In addition, the degree of risk is determined by, among other things:

- the conditions, structure and complexity of the financial instrument;
- the objective and expectations at the time of concluding the transaction;

If derivatives are applied poorly or inadequately, this can lead to undesired risks and cause (high) costs or losses. Below is a brief description of the important risks of OTC transactions.

### Liquidity risk

The liquidity of a financial instrument is directly determined by the relationship between supply and demand in the market and indirectly through other factors such as market disruption or difficulty in settling the transaction. The liquidity of a security is also dependent on its connected characteristics, i.e. the trading conditions under which the transaction with the counterparty was concluded. One of the conditions could be that it is not possible to close out your position early. If parties have the option to end their positions early, each party runs the risk that the position will have a negative market value at that time. The value of your position is highly dependent of market conditions. Finally, foreign exchange derivatives are not transferable.

### Credit risk

Credit risk is the risk that your counterparty to the transaction is unable to meet its payment obligations arising from the transaction or that its credit rating may be (severely) impaired.

### Market risk

The market price of an OTC derivative depends, among other things, on supply and demand in the market, the views of market participants, the price of the underlying, sector conditions and economic factors. These market developments or factors can sometimes be unpredictable. A position or investment with a cross-border element may be subject to cross-border market risks. These risks may sometimes be higher and the potential financial gain or loss in cross-border transactions may be affected by fluctuations in the foreign exchange markets.

### Currency risk

Currency risk arises because exchange rates fluctuate against each other. Transactions in derivatives, which are denominated in a unit of currency other than the base currency of the enterprise, are exposed to foreign exchange risk. The fluctuation of the interest rate related to the applicable currency can affect the value of your derivative positions. Fluctuations in the value of the currency depend, among other things, on the local economic conditions of the home country and social and political factors. Some countries maintain a strict policy on trading in their local currency. Such a policy may involve the government (severely) restricting or temporarily prohibiting trade in the local currency. Devaluation of the local currency is also one of the possible risks.

### Interest rate risk

Interest rate rises and falls can have both a positive and a negative effect on the value of your position.

## 12. Differences in method of settlement

FX Forward involves the delivery of the underlying asset. This is in contrast to other currency derivatives such as FX Swaps.

## 13. Counterparty costs

If - for any reason - you want to or have to terminate a derivatives transaction before its maturity, this can involve substantial costs. A derivatives transaction is always related to an underlying asset. The value of a derivatives transaction therefore depends on fluctuations in the price or the price of that underlying. At Franx it is not possible to terminate an FX Forward Transaction during the term. However, you can 'counter close' the FX Forward Transaction. This means that you conclude another FX Forward Transaction, but this time in the opposite direction. With the same amount and currency, only at a new forward rate. This forward rate again includes costs of ABN AMRO. On the agreed value date, both transactions are executed:

- First, the original transaction is executed, at the original forward rate.
- ABN AMRO then executes the opposite transaction, at the new forward price.

We will settle the difference between these two transactions with you. This can make you money (if the new forward rate is more favourable to you), but it can also cost you a lot of money.

## 14. Additional costs

For the Foreign Exchange Derivative Transactions, no costs are charged by ABN AMRO and/or Franx besides the agreed tradeable price. You pay Franx a fee that is part of the price that is agreed upon (the tradable price). For an explanation of how the negotiable price is established, please refer to the information included in the 'Order Execution Policy Foreign Exchange Derivatives Service Provision ABN AMRO through Franx'.

## 15. Transaction confirmation

Transactions can be concluded with ABN AMRO through Franx's Platform. Once a transaction has been concluded, both parties are bound to it. After concluding the transaction, ABN AMRO will digitally display the transaction data on screen for your acceptance. In addition, the transaction confirmation will also be made available to you digitally (in pdf format). A transaction confirmation states, among other things, the type of transaction, the date on which the transaction was concluded, the date on which the transaction starts, the expiry dates, the fixing date, the transaction currency and the transaction amounts. For a more detailed explanation please refer to the CFEDSP.

## 16. Payments

Any payments made under closed transactions will be immediately debited or credited to your account with Franx. On Franx's Platform, you will see all credits and debits from your transactions

## 17. Commonly used terms in the Foreign Exchange Derivatives Service Provision ABN AMRO through Franx.

17.1 Source: Reference to a rate or interest rate publication.

17.2 Cash exercise (netting, settlement) or cash settlement: the settlement of a derivative position for cash rather than for delivery of the underlying.

17.3 Convention adjusted next working day: If one of the dates specified in the transaction confirmation falls on a weekend or public holiday, the next working day shall be deemed the day of execution.

17.4 End date or expiry date: The date on which the transaction ends. If the end date is missing, the expiry date is the end date.

17.5 Fixation date: the date on which a price, rate or interest rate is set ('fixed') which applies to a settlement over a specified period of time.

17.6 Physical exercise (settlement): the act of settling a derivative position by the physical delivery of the underlying instrument.

17.7 Principal: Amount over which settlement will take place as agreed.

17.8 Effective date: The date on which the transaction takes effect. If the effective date is missing, the transaction date is the effective date.

17.9 Price: a price at which a currency pair is traded in the spot market at any given time.

17.10 Duration: The period from the Effective Date until the End Date.

17.11 Reference rate, interest rate, rate or other value: Reference which serves as the basis for settlement as agreed before the transaction.

17.12 Spot market: global currency trading with delivery after two working days.

17.13 TARGET business day: TARGET (Trans-European Automated Real-Time Gross Settlement Express Transfer System) is the system through which all payments in euro between banks are carried out. A TARGET business day is therefore a day on which the TARGET system is open.

17.14 Transaction: Foreign Exchange Derivative Transaction between ABN AMRO and the Customer.

17.15 Transaction date: the date on which the transaction is entered into.

17.16 Exercise: The way in which exercise takes place. If not stated, physical exercise applies.

17.17 Currency: Currency, e.g. EUR or USD.

17.18 Value date: The date on which an amount becomes interest-bearing.

17.19 Business day: a day on which commercial banks are open, payments can be made and interest rates are reset in the place relevant for the transaction. Usually this is the capital of the country in which the transaction currency is the legal tender or the reference rate is published.