

SMBC NIKKO

# Ex-ante costs and charges disclosure

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## 1. Overview and Background

In accordance with the Markets in Financial Instruments Directive (“**MiFID II**”) Articles 24 of Directive 2014/65/EU and Articles 11 and 50 of MiFID II Delegated Regulation, this statement provides ex-ante information on costs & charges related to the provision of Investment Services and Activities or Ancillary Services as defined in MiFID II by SMBC Nikko Capital Markets Limited (“**SMBC Nikko**”) and SMBC Derivative Products Limited (“**SMBC DP**”) (collectively “**N&DP**” or “**we**”) to its Clients.

N&DP may act in different capacities and trade in a variety of markets and transactional scenarios (e.g. executing of orders on behalf of clients, systematic internaliser, market maker, liquidity provider, or primary issuer). As such, you may be charged in different ways for different products or services you receive from us.

As permitted by MiFID II, given the investment services provided to professional clients and eligible counterparties, N&DP wherever possible will limit the application of the costs and charges disclosure requirement including (but not limited to) the ex ante and ex post costs cumulative disclosures and currency conversion as outlined in section 3 below. However, an itemised break down will be provided on request.

MiFID II Costs and Charges obligations apply to transactions in ‘financial instruments’ as defined under MiFID II. Costs and Charges associated with particular transaction, but to the extent indicated may not reflect the Costs and Charges associated with any specific financial instrument.

Price formation in N&DP generally takes into account the following factors:

- observable market prices
- executed transactions
- volatility data
- other market data
- internal models
- observable trade flows.

The final client price is generally determined by the application of Costs and Charges to products to midprice. The difference between the mid price and the final client price shall generally be deemed to constitute the Costs and Charges to the client.

## 2. Costs and Charges

The Costs and Charges that N&DP applies to financial instruments vary depending upon a number of client specific and non-client specific factors. These factors can include but are not limited to: the risk profile of the relevant business, client behaviour, counterparty credit risk, funding costs, capital usage, margin costs, hedging costs and, where applicable, sales mark-up or mark-down.

The following factors that may impact the level of Costs and Charges applied:

- Credit support: Where a client has in place an ISDA and Credit Support Annex with N&DP, this may decrease the level of credit charges applied to derivatives falling under the ISDA.

- Clearing: Where derivatives entered into between the client and N&DP are cleared through a central counterparty clearing house, this may decrease the level of credit charges applied to such trades.
- Maturity: Where a derivatives trade has a greater maturity, this may increase the level of funding and credit charges applied to such trade.
- Liquidity: Where a trade is executed at a time of lower liquidity, this may increase the level of hedging costs associated with such trade.
- Unless notified otherwise, Costs and Charges for N&DP's products are embedded in the final price received by the client.

Client-specific factors, such as credit quality and our collateral terms with you; and impact or importance of each factor on the price you receive will differ based on the specific circumstances of the transaction and additional factors may also be relevant. The relevant impact or importance of each factor on the price you receive will differ based on the specific circumstances of the transaction and additional factors may also be relevant. The type of product, transaction and market in which the product would be traded, such as:

- i. the trading venue;
- ii. the type of instruction or order and the degree of risk we take in meeting it;
- iii. the size, type and direction of the transaction;
- iv. the liquidity of the instrument;
- v. market conditions, including market events, volatility and time of execution;
- vi. transparency of the market, including visible liquidity, trading volume and available external venues or platforms; and
- vii. the accessibility of third party quotations and other pricing information
- viii. Internal costs to N&DP, such as counterparty credit risk, hedging, structuring and market risk, funding, and capital;

### 3. Product Specific Disclosures

The links below provide clients with important information about costs and charges relating to certain financial instruments as required under Article 24(4) of the Markets in Financial Instruments Directive II.

- [Securities Products](#)
- [Derivatives Products](#)

### 4. Other Matters to Note

#### a) Aggregated Costs & Charges and Cumulative Effect Disclosures

Ex-ante and ex-post disclosure of information on costs and charges to clients, N&DP shall aggregate all costs and associated charges charged for providing investment services(s) and/or ancillary services. In accordance with MIFIDII, given the investment services provided to professional clients and eligible counterparties, N&DP will limit the application of these Cumulative Effect Disclosures, however, itemised breakdowns will be provided on request.

#### b) Commissions and fees

Where we act in executing orders on your behalf, or providing access to a particular source of liquidity, we may charge you a pre-agreed commission or fee on the trade. Commissions or fees at which N&DP generally expects to trade with you are agreed with you, and as such these commissions or fees may be amended periodically and any changes agreed with you.

#### c) Securities lending repo and financing fees

For securities lending transactions, where you are the borrower, you will be charged a lending fee. For repo transactions, a pricing rate will be payable. For equity swaps you will be charged a financing rate.

The rates and the basis on which N&DP generally expects to trade with you may be agreed with you at the initiation of business and set out in our fee schedule. In all other cases, they will be agreed on a trade-by-trade basis, prior to trading, and will be based on some or all of the following factors: the type of product and underlying security, type and size of the transaction, market conditions, market transparency, availability of liquidity providers and other considerations that are in existence at the time of the transaction and the type of and the amount of collateral provided.

#### **d) Product or transaction specific fees**

Additional product specific fees may be agreed with you for certain financial instruments, services, engagements and/or transactions. Information on such fees will be provided in specific service or engagement documentation.

#### **e) Taxes**

Taxes may also be payable in accordance with the rates set by the relevant tax authorities at the time of the transaction. Such rates are publicly available, may be affected by factors such as the type of security, type or value of the transaction and/or your tax status and may change at any time.

#### **f) Currency conversions**

If your transaction involves a currency conversion (e.g. if the security being purchased is denominated in a different currency), currency exchange costs may also apply, which will be determined by reference to a number of factors, including exchange rates applicable at the time of your transaction.

#### **g) Risk price**

When you ask us to provide you with a quote in a particular financial instrument or where we will be trading with you in as principal "on risk" (i.e. as a systematic internaliser, market maker or liquidity provider), unless we agree otherwise, the price of any transaction we execute with you may include what we believe to be a reasonable spread. This spread is not an explicit transaction charge; rather the price reflects the risk price at which N&DP is willing to trade that instrument with you.

The risk price at which you trade with N&DP will depend on a number of factors which reflect the level of risk N&DP expects to incur when transacting with you, which may include those set out below. This list is not exhaustive and N&DP may take into account other factors that it considers appropriate in determining that price.

#### **h) Costs related to Ancillary or other services**

N&DP may charge you for ancillary or other services we provide you, such as research and corporate access services. Any such fees are agreed with you and may be amended periodically and you will be notified of any changes.

#### **i) Third-party payments**

From time to time, we may receive remuneration from third parties (excluding our affiliates) in respect of transactions we carry out with or for you, or we may provide or receive non-monetary benefits in connection with the provision of services to you, provided that the payment or benefit:

- i. is designed to enhance the quality of the services that we provide to you; and
- ii. does not impair compliance with our duty to act honestly, fairly and professionally in accordance with your best interests.

Where we pay or receive such amounts or benefits, we will disclose the existence, nature and amount of the payment or benefit separately to you (which may be via a client platform or portal). Minor non-monetary benefits e.g. participation in conferences, may be described in a generic way.

If you have any questions in relation to the Costs and Charges associated with any particular financial instrument, please raise these with your usual N&DP Representative.