

MiFID II Costs and Charges

Commonwealth Bank of Australia

Updated: December 2018

CommonwealthBank
of Australia



MiFID II: Costs and Charges

This updated document supersedes the previously published Ex-Ante disclosure dated June 2018. Amendments to the FX derivatives base price from mid-price to trader price and subsequent calculation methodology are highlighted below in bold.

1. Introduction

This document sets out information concerning costs and charges that we are required to disclose to you by article 24(4) of the Markets in Financial Instruments Directive 2014/65/EU (**MIFID II**). The obligation to disclose this information relates to services or activities provided to you by Commonwealth Bank of Australia, London Branch (**CBA LB**) and/or CBA Europe Limited (**CBAE**) (together, '**we**,' '**us**,' '**our**') in accordance with the Terms of Business we currently have in place with you. It applies to transactions we may enter into with you in the following Financial Instruments (as defined in MiFID II):

- Bonds
- Foreign exchange derivatives
- Commodity derivatives
- Interest rate derivatives
- Credit derivatives

Where we provide any specific information on costs and charges prior to entering into a transaction with you (for example by means of a term sheet or other oral or written disclosure) that information will take precedence over the information set out in this document.

2. Application of costs and charges

You may incur costs and charges when entering into transactions for the acquisition or disposal of a Financial Instrument with us ("**Transaction Costs**"). Transaction Costs are included in the all-in price that we quote to you and are equal to the difference between the all-in price and the fair market value of the instrument.

For the purpose of CBA's costs and charges disclosure, the fair market value will be *either* the prevailing mid-market price (where this is available or can be readily derived) or the trader price (i.e. the price we would expect to trade with interbank counterparties). In general and where possible, Transaction Costs will be calculated with reference to the mid-market except for commodity derivatives **and FX forwards and FX swaps** (where the trader price will be used). However, this can vary depending on availability of suitable reference pricing.

Transaction Costs include service factors to compensate the bank for services provided to you by CBA. This includes items such as, but not limited to, balance sheet and capital usage, risk limit usage, counterparty specific risk costs, processing and settlement costs of the transaction.

In cases where the prevailing mid-market price represents the fair market value, execution factors are also incorporated in Transaction Costs and include amounts to compensate the bank for the risk associated with providing trade execution in the market, the volatility and liquidity of the instrument you are trading and size and/or complexity of your transaction.

Transaction Costs may also be incurred during the lifecycle of a transaction where this involves a pricing or other related event. For example, in the event of exit or termination of the transaction.

In order to determine the Transaction Cost, we will determine the fair market value in our sole and absolute discretion. Where the prevailing market mid-price is used, we do this by reference to prevailing executable bid-offer prices (where this is available) or CBA's internal determination of a mid-price based on observable market inputs or reasonable estimates depending on the availability of such data.

Where the trader price is used, this is determined by reference to observable transaction prices. The trader price will vary from trade to trade based on observable prices in the market, liquidity, volatility, ongoing market making activities and the specific nature of the transaction.

Third party payments received by the investment firm

We do not receive third party payments when executing transactions in Financial Instruments with you. Should we receive any third party payments then these will be disclosed in accordance with our regulatory obligations.

Cumulative effect of costs and charges on returns

Your Transaction Costs in respect of a transaction will be based on the all-in price we quote to you. The overall return on investment that you could expect to receive over the life of the transaction will be reduced by the aggregate amount of these Transaction Costs. While the amount of your Transaction Costs will be determined upfront, when you incur these costs will depend on the terms and conditions and the payment structure of the transaction.

3. Costs and Charges – Ex-ante Disclosure

The costs and charges figures displayed in this section have been prepared based on reasonable estimates and assumptions using historical costs and charges data that was available for Financial Instruments transacted over a six-month period between June 2017 to December 2017. For the Financial Instruments with limited trade activity during this period, the figures reflect CBA's estimate of the costs and charges for transactions under specific market conditions transacted at that time and the figures are available only for financial instruments and tenors that were commonly traded during this period (for purposes for this costs and charges disclosure).

The costs and charges are calculated as the difference between the all-in price we quote to you and the fair market value of a Financial Instrument. Subject to the exceptions noted below, we have used the market-mid price as the base price for the calculation of the fair market value of a Financial Instrument. In some cases where the market-mid price was not readily available, we used CBA's internal determination of a mid-price. However:

- for commodity derivatives, the cost and charges above the trader price has been used, as CBA considers the trader price to be representative of fair market value (i.e. the price we would expect to trade with interbank counterparties).
- **for FX forwards and swaps, CBA has used trader price for the purposes of this disclosure and will assess options and the viability of moving to a mid-price benchmark from 2019.**

The figures provided below are solely for illustrative purposes of the costs and charges associated with the particular Financial Instruments disclosed herein. They may not reflect the costs and charges that would actually be incurred for a Financial Instrument that CBA transacts with you. The figures have been calculated based on reasonable assumptions, including rounding values where it has been deemed appropriate. CBA will periodically review the estimated figures shown in the table and make adjustments where necessary.

Asset class cost and charges					
<u>Bonds</u>					
High grade & SSA					
Time to Maturity	0-2 Years	2-5 Years	5-9 Years	9-12 Years	12 Years or greater
	Average yield spread to mid (bps)	Average yield spread to mid (bps)	Average yield spread to mid (bps)	Average yield spread to mid (bps)	Average yield spread to mid (bps)
	0.4	0.3	0.3	0.5	0.5
Credit					
Time to Maturity	0-3 Years	3-5 Years	5-10 Years	10 Years or greater	
	Average cents to mid	Average cents to mid	Average cents to mid	Average cents to mid	
	4.0	9.6	13.1	19.7	
<u>Interest Rate Derivatives</u>					
Time to Maturity	0-3yrs	3-7yrs	7-12yrs		
	Average bps	Average bps	Average bps		
AUD IRS	2.1	3.1	2.9		
<u>Commodities</u>					
Time to Maturity	0-6 Months	6-12 Months	12-18 Months	18-24 Months	24-36 Months
	Average % of trader price	Average % of trader price	Average % of trader price	Average % of trader price	Average % of trader price
Energy / Agricultural	0.20 - 0.25%	0.20 - 0.30%	0.30 - 0.40%	0.30 - 0.40%	0.35 - 0.45%
Metals	0.15 - 0.20%	0.20 - 0.30%	0.30 - 0.40%	0.40 - 0.55%	0.45 - 0.70%
<u>FX forwards</u>					
Time to Maturity	0-3 Months	3-12 Months	1 year or greater		
	Average of Margin as % of trader price	Average of Margin as % of trader price	Average of Margin as % of trader price		
All Currency pairs	0.0075%	0.0106%	0.0773%		
<u>FX swaps</u>					
Time to Maturity	0-3 Months	3-12 Months	1 year or greater		
	Average of Margin as % of trader price	Average of Margin as % of trader price	Average of Margin as % of trader price		
All Currency pairs	0.0027%	0.0055%	0.0742%		

Notional representation:

1. If you are trading an Australian government bond with a face value of AUD 100m and 7 years remaining maturity the estimated costs and charges from mid is 0.003% per annum. This results in total estimated life-time costs of AUD 21,000 (AUD 100m x 0.003% x 7 years).
2. If you are trading an investment grade credit bond with a face value of USD 10m and 5 years remaining maturity the estimated flat rate from mid is 9.6 cents which results in total costs of USD 9,600 (USD 10m x 0.096%).
3. If you are an investment grade client trading a fixed floating Interest Rates Swap with a non-amortizing notional of AUD 10m and a 6 year maturity, the estimated margin from mid would be 0.031%. This results in a total estimated lifetime cost of AUD 18,600 (AUD 10m x 0.031% x 6 years). Note that costs may be higher if the trade is not collateralized and lower for collateralized trades.
4. If you are an investment grade client trading a commodity swap with a notional of AUD 1m and 2 years maturity (e.g. 10,000 barrels of Brent crude oil with a price of AUD 100 per barrel) the estimated margin from the trader price would be 0.30%-0.40%. This results in a margin of AUD 3,000 – 4,000 on top of the trader price. Note that the margin tends to be higher for uncollateralized trades than for collateralized trades and depends on the client's credit quality.
5. If you are an investment grade client trading a metals commodity swap with a notional of USD 2.3m and 2.5 years maturity (e.g. 1,000 metric tonnes of aluminium with a price of USD 2,300 per metric tonne) the estimated margin from the trader price would be 0.45-0.70%. This results in a margin of AUD 10,350 – 16,100 on top of the trader price. Note that the margin tends to be higher for uncollateralized trades than for collateralized trades and depends on the client's credit quality.
6. If you are an investment grade client trading an outright AUD/USD FX forward with maturity of 4 years in USD 10m the estimated margin from **trader price** would be 0.0773% which results in total costs of USD 7,730. Note that costs may be higher if the trade is not collateralized and lower for collateralized trades.
7. If you are an investment grade client trading a EUR/USD FX swaps with maturity of 9 months in EUR 100m the estimated margin from **trader price** would be 0.0055% which results in total costs of EUR 55,000. Note that costs may be higher if the trade is not collateralized and lower for collateralized trades.

Important Note

This information is provided to you by us for illustrative purposes and in order to satisfy our legal obligations and regulatory disclosure requirements and does not relate to any services or activities provided to you by any other CBA group entity and/or branch. This document does not constitute marketing material nor should it be considered by you as a recommendation, solicitation or offer to purchase or sell a Financial Instrument. The provision of this document to you does not constitute us providing you with any investment advice. If you enter into a transaction with us, our relationship will be governed by our Terms of Business and the terms of the transaction will be agreed between us and set out in the relevant Product Agreement (as defined in our Terms of Business)