

# **Guidelines for systematic internalisation by DZ BANK AG**

**As at 18.12.2017**

Since 3 January 2018 DZ BANK AG has conducted systematic internalisation according to Section 2 (8) n° 2 letter b) of the German Securities Trading Act (WpHG) in certain non-equity capital instruments (bonds, structured financial products and derivatives). It is thus a systematic internaliser in the sense of Article 4 (1) n° 20 of the Directive 2014/65/EU of the European Parliament and of the Council dated 15 May 2014 on Markets in Financial Instruments (“**MiFID II**”). The bank’s Market Identifier Code (MIC) is DZBK.

These guidelines contain information for customers of DZ BANK AG

- on the fulfilment of the obligation to quote prices by DZ BANK AG,
- on scope of systematic internalisation by DZ BANK AG,
- on the prerequisites subject to which DZ BANK AG provides a customer with a quote,
- on the number of transactions that DZ BANK AG is prepared to conclude under a quote provided by it and
- on the media of publication through which DZ BANK AG publishes quote for non-equity capital instruments.

This guideline was last amended on 18.12.2017 and may be amended again at any time. The corresponding current version of this guideline is published on DZ BANK’s homepage ([www.dzbank.de](http://www.dzbank.de)).

## **A. FULFILMENT OF DZ BANK AG’S OBLIGATION TO QUOTE**

DZ BANK AG will fulfil its obligation to quote according to the requirements of Article 18 of the Regulation (EU) n° 600/2014 of the European Parliament and of the Council of 15 May 2014 on Markets in Financial Instruments (“**MiFIR**”) for these non-equity capital instruments for which it is a systematic internaliser. DZ BANK AG will provide its customers with quotes on request when DZ BANK agrees to provide a quote (Art. 18 (1) MiFIR). A request to provide a quote may be refused if among other things the non-equity capital instrument is not available in the trading book and/or if DZ BANK AG deems the covering risk in the capital market to be too high. In particular, this may be the case in the event of high market volatility. No reason is given for the refusal of a request in individual cases.

In addition, DZ BANK AG is also authorised, but not obliged, to publish quotes continuously independently of a request from a customer (quote stream).

DZ BANK AG is authorised to update quotes at any time. In the case of exceptional market conditions, it is authorised to withdraw its quotes (Article 18 (3) MiFIR).

## **B. SCOPE OF SYSTEMATIC INTERNALISATION BY DZ BANK AG**

On 3 January 2018 DZ BANK AG will voluntarily subject itself to the regulations on systematic internalisation for the following non-equity capital instruments:

- securitised derivatives issued by DZ BANK AG (Article 4 (1) n° 44 letter c) MiFID II),
- bonds issued by DZ BANK AG or by third parties (Article 4 (1) n° 44 letter b) MiFID II), which are neither securitised derivatives nor structured financial products,
- structured financial products issued by DZ BANK or third parties (Article 4 (1) n° 44 letter b) MiFID II in conjunction with Article 2 (1) n° 28 MiFIR),
- interest rate derivatives (Table 5.1, Annex III of the Delegated Regulation (EU) 2017/583 of the Commission of 14 July 2016),
- credit derivatives (Table 9, Annex III of the Delegated Regulation (EU) 2017/583 of the Commission of 14 July 2016) and
- FX- derivatives (Table 8, Annex III of the Delegated Regulation (EU) 2017/583 of the Commission of 14 July 2016).

If DZ BANK AG becomes a systematic internaliser for further financial instruments by exceeding the threshold values for status as a systematic internaliser as set out in Articles 12 to 16 of the Delegated Regulation (EU) 2017/565, it will notify the Bundesanstalt für Finanzdienstleistungsaufsicht (German supervisory body for financial services) immediately. The European Securities and Markets Authority (ESMA) publishes a list of all systematic internalisers on its website (<https://www.esma.europa.eu/>).

## **C. CRITERIA FOR MAKING QUOTES AVAILABLE**

As a systematic internaliser DZ BANK AG is obliged to make binding quotes in liquid non-equity capital instruments that it has provided for one customer also available for its other customers and to trade with these customers on these binding quotes. However, this only applies if the binding quote relates to a volume, which is below the *size specific to the instrument* according to Article 18 (10) in conjunction with Article 9 (5) letter d) MiFIR).

DZ BANK AG is entitled to decide in line with its business policy and in an objective, non-discriminatory manner which customers it grants access to its quotes. It may also refuse to enter into a business relationship with customers or to terminate such a relationship.

### **I. Selection of customers to whom a binding quote is made available**

Reasons for which DZ BANK AG may refuse to give a customer access to a binding quote are:

### **1. Internal limits**

Within the framework of its general risk controlling DZ BANK AG sets internal customer- and product-specific limits for customers and for financial instruments it trades. The customer is not informed of these limits. If a transaction causes an internal limit to be exceeded or if no limit has yet been set for a customer, DZ BANK AG will not provide the customer with a quote without disclosure of the internal limits.

### **2. Product governance**

DZ BANK AG is obliged to specify a target market for financial instruments, which it distributes to its customers. In addition DZ BANK is obliged to check whether the corresponding customer belongs to the target market of the corresponding financial instrument before trading (Article 12 Investment Services Conduct of Business and Organisation Regulation (Wertpapierdienstleistungs-, Verhaltens- und Organisationsverordnung (WpDVerOV))). If DZ BANK AG finds that a certain customer does not belong to the target market of a financial instrument for which it has provided a binding quote, then it reserves the right to withhold the quote to this customer.

### **3. Special features with respect to non-securitised derivatives in OTC trading**

When providing a quote for a non-securitised derivative in OTC trading, DZ BANK AG takes special account of the customer's credit rating. For this reason, DZ BANK AG will provide a binding quote for a non-securitised derivative only to such customers that have the same credit rating of the customer to whom the quote was originally provided.

## **II. Reasons for refusing a business relationship within the framework of systematic internalisation**

DZ BANK AG will only make binding quotes available to those market players that it has already accepted as customers for systematic internalisation. DZ BANK AG decides correspondingly in its business policy and in an objective and non-discriminatory manner which customers it grants access to its quotes. It will refuse to accept a business relationship with a market player within the framework of the systematic internalisation in particular for the following reasons:

- a) the market player has not yet been audited in compliance with the requirements of the Money Laundering Act and/or the market player has not yet been entered as a customer in the internal systems of DZ BANK AG.
- b) Transactions with the customer cannot be settled in an adequately safe and efficient manner, e. g. because the customer does not have access to corresponding settlement systems.
- c) Transactions with the customer would violate national or international embargos.

**D. NUMBER OF TRANSACTIONS THAT DZ BANK AG IS PREPARED TO CONCLUDE UNDER A BINDING QUOTE IT HAS PROVIDED**

DZ BANK AG undertakes to conclude exactly one transaction in a volume that is equal to or below the quoted offer in respect of each binding quote that it has submitted and has made, provided that the quote is based on a volume below the typical business volume (size specific to the instrument pursuant to Article 18 (10) in conjunction with Article 9 (5) (d) MiFIR) applicable to the financial instrument concerned (see Section B.). DZ BANK AG reserves the right to conclude further transactions and transaction with a larger volume on a voluntary basis.

**E. MEDIA FOR THE PUBLICATION OF BINDING QUOTES**

DZ BANK AG will publish its binding quotes through the approved publication system (Approved Publication System “APA”) of Deutsche Börse AG.

In addition, DZ BANK AG may publish its quotes on its own web site ([www.dzbank.de](http://www.dzbank.de)).