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SYSTEMATIC INTERNALISER – COMMERCIAL POLICY

Systematic Internaliser – Commercial Policy

1. Introduction

Article 18(5) of Regulation (EU) No 600/2014 of the European Parliament and of the Council and the comparable requirements in the UK, as applicable (“MiFIR”), require a Systematic Internaliser (SI) to make the firm quotes that it publishes in accordance with paragraph 1 of MiFIR available to its other clients for execution. An SI may decide, on the basis of its commercial policy and in an objective non-discriminatory way, the clients to whom it gives access to its quotes. The commercial policy must lay out clear standards for governing access to its quotes, which can take into account commercial considerations.

This document sets forth the commercial policy of J.P. Morgan when it acts as an SI and agrees, when prompted by a client, to provide a firm quote in respect of bonds, structured finance products, emissions allowances and derivatives, in each case where (1) the instrument is traded on a trading venue, (2) there is a liquid market for the instrument, and (3) the size quoted is equal to or less than the size specific to the instrument.

2. Policy Statements

Client Tiering

For each financial instrument in which J.P. Morgan acts as an SI, the line of business that trades such financial instrument will establish tiers of clients based on commercial considerations such as the following factors:

- nature of the client’s trading/trading strategy (e.g. algorithmic traders, entities trading for hedging purposes, pension funds)
- client profitability to J.P. Morgan
- volume of trades executed with J.P. Morgan
- counterparty risk

Each line of business maintains its own Client Tiering. As such, any quote requiring Pre-Trade Transparency as per Article 18(5) and the comparable requirements in the UK, as applicable, will be made available to clients of the same line of business and Tier as the original quote inquirer.

Number of Tiers

J.P. Morgan reserves the right to maintain multiple client tiers in the financial instruments in which it acts as an SI.

Changing Tier of a Client

A line of business may change the tier of a client at any time based on the presence of any of the following non-exclusive factors:

- delayed provision of trade allocations by the client and/or other operational cooperation to ensure timely settlement of transactions
- high dependency on J.P. Morgan operational support to process transactions
- high frequency of error trades
- client requirement to physically settle transactions (vs. cash-settle)
- client delay in providing information to J.P. Morgan upon reasonable request
- a significant change to any of the commercial considerations outlined in the “Client Tiering” policy statement.

Trading Capacity

J.P. Morgan will execute with respect to the firm quote up to the size it originally quoted, giving priority to the client that requested that quote. If the requesting client decides not to execute on the quote or executes on only part of the quote, J.P. Morgan will execute with respect to the amount of the quote that was not executed by the requesting client on a first-come-first-serve basis with the first client in the tier that responds to the quote. If after execution of that transaction there is/are outstanding request(s) from client(s) in the tier to trade on that quote, J.P. Morgan has discretion to execute some, all, or none of these transactions, but execution of additional transactions will be on a first-in-time basis.

Time Period for Availability of Quote

A firm quote that is made available to clients in a tier will be actionable until the earlier of (1) execution of a trade by a client responding to that quote, or (2) the updating of the quote in response to market price movements. The time period during which the firm quote will be available will depend on the relevant financial instrument and its price volatility. J.P. Morgan may withdraw a firm quote in the event of exceptional market conditions.

Adjustment to Quote for Client-specific pricing factors and for Central Counterparty-specific factors

For derivatives that are not cleared, the firm quote displayed on the JPMorgan Markets electronic trading platform to all clients of the same tier will represent the overall price available to the original client, including credit and other charges. The relevant line of business may adjust that firm quote for another client within the same tier based on the terms of the margin agreement (credit support annex) that the other client has in place with J.P. Morgan and on the credit valuation adjustment with respect to the other client. These factors are specific to each client and are taken into account whenever providing a price to a client. The line of business salesperson who covers the client affected by the adjustment will explain the reason for the adjustment to the client.

If a client requests that a derivative be cleared at a different central counterparty than the central counterparty upon which the original firm quote would have been cleared at if executed, the line of business may adjust the firm quote to reflect factors such as the other central counterparty's margin requirements, eligible collateral, and clearing costs.