



INSTITUTIONAL CLIENTS

THE SAXO BANK  
INSTITUTIONAL SUPPLEMENT

INSTITUTIONAL CLIENTS



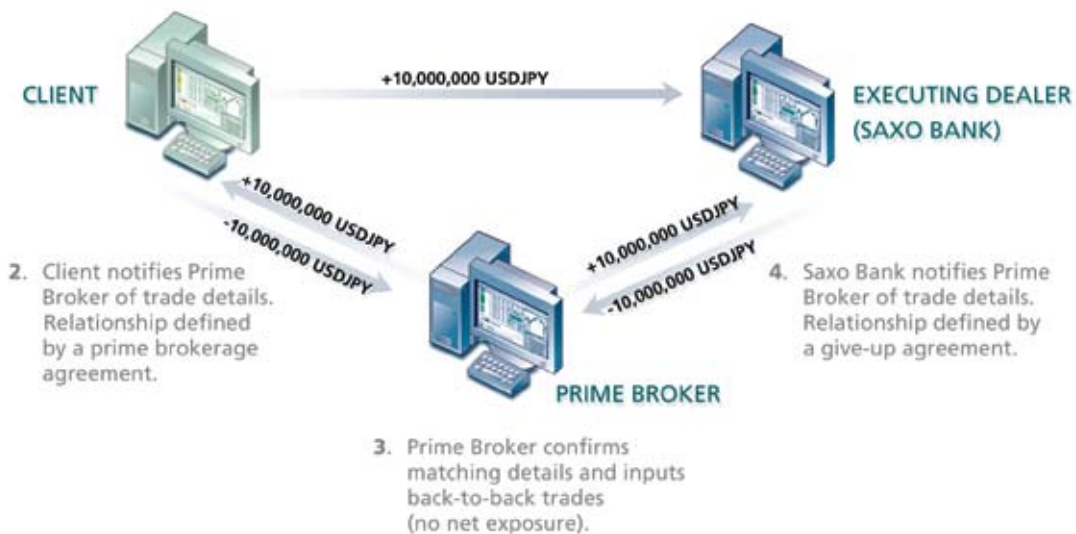
# PRIME BROKERAGE

Foreign exchange prime brokerage allows a client to source liquidity from a variety of executing dealers (for example Saxo Bank A/S) while maintaining a credit relationship, placing collateral and settling with a single entity - the prime broker.

As illustrated in the figure below, the client conducts a trade with the executing dealer in the name of the client's prime broker. When the prime broker is informed of and accepts the transaction by the client and executing dealer, the prime broker, rather than the client, becomes the party to the transaction with the executing dealer. In addition, the prime broker will simultaneously enter into an offsetting transaction with the client. The prime broker and the executing dealer confirm and settle the trade, while the prime broker settles with the client on a net basis (netting trades entered into with executing banks other than Saxo Bank A/S). In exchange for the authority to trade in his/her name, the prime broker typically charges the client a fee on a volume basis for the trades conducted according to this arrangement.

Although the client trades in the name of the prime broker, using the prime broker's credit line with the executing dealer, the execution of a transaction involves direct communication between the client and executing dealer in which the identities of both parties are known.

1. Client trades with Executing Dealer (in this example sells 10,000,000 USDJPY to Saxo Bank).



## **BENEFITS TO THE CLIENT**

Prime brokerage allows the client to maximise his/her credit relationships and activities while improving efficiency. This arrangement provides for the more efficient use of collateral for margin relationships. Further, margin positions can be netted as the client needs to manage just one credit relationship to gain trading relationships with many counterparties. In addition, the client is able to access pricing and liquidity from a greater number of dealers and can potentially expand the range of his/her activities.

Furthermore, prime brokerage allows a client to consolidate positions and improve execution. For example, a client may establish foreign exchange positions with several different counterparties, which are then consolidated into a single position with the prime broker. The client can manage a single position more easily than he/she can manage many individual positions with a variety of counterparties.

## **LEGAL FRAMEWORK AND AGREEMENTS**

The establishment of a Prime Brokerage arrangement requires specific legal documentation that articulates the rights and responsibilities of all parties, i.e. the client, the executing dealer and the prime broker. These agreements are as follows:

- The Prime Brokerage Agreement - entered into by the Parties.
- The Master FX Give-Up Agreement – entered into by the Prime Broker and the Executing Dealer.
- The Give-Up Agreement Notice – usually entered into by the Prime Broker and the Executing Dealer with reference to a specific client.
- The Institutional Trading Agreement – governs the relationship between the Executing Dealer and the client in this setup.

### ***Prime Brokerage Agreement***

Under this agreement, the prime broker agrees that the client may enter into foreign exchange transactions with dealers approved by the prime broker and that the prime broker, rather than the client, will become the party to these transactions if the applicable terms specified in the prime brokerage agreement are satisfied. Generally, these terms cover two areas:

**First**, each transaction will have allowable products, such as spot, forward or option transactions, and a tenor that does not exceed a specified maximum.

**Second**, the transaction will have to be within specified limits, which may include settlement, open position limits or both.



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These limits usually apply to the aggregate of all transactions executed by the client with an executing dealer and are typically either specified in the prime brokerage agreement or sent to the client by the prime broker so as to be known to the client at all times. The prime brokerage agreement furthermore describes the procedure by which the client notifies the prime broker of the transaction.

#### ***Master Give-Up Agreement***

In this agreement, which is between the prime broker and the executing dealer, the prime broker agrees to become the counterparty to each transaction executed by the client with the executing dealer, subject to compliance with the specified terms.

A give-up agreement is customarily executed as a master agreement and is supplemented by a give-up agreement notice for each Prime Broker client that will execute trades with the applicable executing dealer.

The bilateral nature of the Master Give-Up Agreement reflects the need for efficiency and standardisation and takes into account the fact that a prime broker may designate a number of clients to engage in foreign exchange give-up transactions on its behalf pursuant to a single master agreement.

#### ***Give-Up Agreement Notice***

The give-up agreement notice identifies the client and contains the allowable products, tenors and specific limits that apply to the trades that the prime broker will accept for that client. The terms specified in the give-up agreement notice are typically either the same as those included in the prime brokerage agreement or, if different, sent to the client by the prime broker.

Because these terms are specified in the give-up agreement notice, the executing dealer is able to determine, before executing any trade with the prime broker's client, whether the prime broker is obligated to accept the give-up of the transaction. In addition, the prime broker may be contacted and asked to accept transactions that may be outside the limits specified in the agreements.

#### ***Institutional Trading Agreement***

This is entered into between the institutional client and Saxo Bank A/S. The Institutional Trading Agreement governs the institutional trading relationship between the parties.

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## SAXO BANK TRADING LINE

Saxo Bank also offers partners the option of opening a Trading Line account. Based on a credit evaluation of the institution, Saxo Bank will establish a FX trading line, allowing the partner to trade with Saxo Bank, on our platform and using our prices, without having to deposit funds with the Bank. A Saxo Bank Trading Line consists of a pre-defined maximum net exposure, i.e. sum of the nominal value of open FX positions converted to the Omnibus currency, that a partner may have on the account. For instance, a partner with a Trading Line of USD 25,000,000 would be able to enter into positions with a total exposure of USD 25,000,000.

In most situations, the trading line account will be settled on a daily basis, with any net profit being transferred to the account designated by the partner and any net loss being transferred to Saxo Bank A/S. Specific settlement policies are defined on a client-by-client basis.

### ***Saxo Bank Credit Line***

In conjunction with the Trading Line, Saxo Bank will generally establish a Credit Line on the partner's account. The Credit Line governs the actual account status a partner can have on the Trading Line account. For instance, a Trading Line account with a credit line of USD 200,000 would allow a partner to have a loss of up to USD 200,000 at the end of any settlement day.

In instances where the credit line is exceeded, Saxo Bank A/S will issue a cash call, requiring a cash deposit of funds to cover the credit deficit (credit line amount plus any overage) by the end of the business day.

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## CONTINUOUS LINKED SETTLEMENT (CLS)

Saxo Bank is a Tier 3 member of the worldwide CLS system. This means that we have the possibility as an indirect member to benefit from the CLS clearing system when trading with other CLS members (or other 3rd or 4th party members).

CLS is a real-time system that enables simultaneous settlement globally, irrespective of time zones, thereby eliminating cross-border credit risk when settling CLS currencies. Settlement is final and irrevocable or funds are returned the same day. In addition, Saxo Bank receives real-time settlement information that we use to manage our liquidity more efficiently and reduce the credit risks inherent with more time-delayed currency settlement processes.

### **THE CLS ADVANTAGE**

CLS enables institutions to settle trades executed with many different counterparts without having to pay prime brokerage fees, plus saving costs of netting exposures between the different counterparts. The elimination of settlement risk, the multilateral netting effect, the corresponding reduction in operational risk and the optimised liquidity usage brought through CLS settlement carry a high value for any institution.

# MARGIN FACILITY

Margin trading allows traders to leverage the collateral in their account. For example, with USD 1 million in the account, a 1% margin enables the trader to hold positions up to USD 100 million. This greatly enhances the scope for profit as well as for loss.

A percentage of the value of (long) non-margin traded positions counts as collateral, as do any securities deposited with Saxo Bank.

## MARGIN REQUIREMENT PROFILE

A margin requirement profile defines the leverage factor allowed (i.e. necessary collateral) for each instrument the account holder is authorised to trade. The margin profile may differ from account to account. Saxo Bank's flexible system easily handles many different tailored margin requirement profiles, each containing varying definitions for each instrument. Different margin requirements can also be defined for weekdays and weekends/holidays.

### Example of Saxo Bank's Pricing Instrument

FX MARGIN REQUIREMENT	
WEEKDAYS	1% for amounts USD 0 - 25,000 2% for amounts over USD 25,000*
WEEKENDS	2% for amounts USD 0 - 25,000 4% for amounts over USD 25,000

*\*In certain situations, Saxo Bank will institute a margin lower than 2% for institutional clients. Please contact Institutional Sales for more information. Margin requirements differ for major, minor and exotic currencies.*

### **MARGIN CALL PROFILE**

Any account holder whose positions exceed the required margin will receive warnings to close positions or transfer funds in order to fulfil margin requirements.

### **MARGIN CALL LEVELS AND ACTIONS**

Saxo Bank's trading platform will automatically issue a margin call to clients in breach of the agreed margin requirements. The calls are sent to the client via email and/or pop-ups on the trading platform. Several margin calls can be issued to the client as the value of his/her open positions deteriorate against the market.

Our partners can define the requirements for these margin calls, including customising:

- The level at which the first and subsequent margin calls are made.
- The action to be taken: Pop-up, email, automatic stop-out, etc.
- The text of the automated pop-up/email.

### **STOP OUT PROCEDURE**

In the event that a client does not respond to the designated number of margin calls, the trading platform will automatically stop out the client's account. This stop-out results in the closing of all the client's open positions at the first available opportunity under the prevailing market conditions. This action is followed by the suspension of the client's trading account via Saxo Bank's proprietary client management system.

These measures help ensure that no one can access the account and enter into new positions before a complete and proper assessment of the client's trading account has been made. This also allows sufficient time for our partners to communicate with the account holder and determine the appropriate action based on the situation and the client's wishes.

### **CONFIRMED SWIFT TRANSFERS**

If an account holder is on the verge of being stopped out due to exceeded margin requirements but has already wired funds, it is recommended to send a copy of the SWIFT confirming the fund transfer. A valid SWIFT message might prevent open positions from being closed.



# REPORTING

## END-OF-DAY (EOD) FILES

EOD Files are flat/text files, sampling all parameters of all trading / account activity during the past 24 trading hours.

FORMAT	Their format (CSV or XML) is ideal for importing into a SQL database where they can be processed and used to update your internal back office systems.
TYPES	We produce more than 30 different types of files which report everything from executed trades to open positions, to the number of active accounts.
GENERATION	The files are generated in the morning for the previous day.
DELIVERY	The files can be delivered either via FTP (we will place the files on a Saxo Bank FTP site where you may securely retrieve them) or by email.
SECURITY	If you wish, we can encrypt the files with a key which you and Saxo Bank will share.

## ELECTRONIC TRADE CONFIRMATIONS

In addition to the EOD files, Saxo Bank also offers instant Electronic Trade Confirmations (ETCs).

The Electronic Trade Confirmations allow clients to:

- Easily integrate their trading with Saxo Bank into one consolidated risk management/front office environment
- Instant trade matching
- Automation of Give-Ups

## ETCs ARE AVAILABLE IN SEVERAL FORMATS

- E-mail (no guaranteed delivery)
- FTP
- FIX (4.2,4.3)
- SWIFT



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