

SYSTEMATIC INTERNALISER COMMERCIAL

Policy

Santander Group

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1 INTRODUCCIÓN

This policy establishes the corporate guidelines of Banco Santander, S.A (hereinafter referred as “Santander” or “we”) according to EU 600/2014 Regulation on markets in financial instruments and amending Regulation (EU) No 648/2012 (hereinafter referred to as “MIFIR”) to establish a commercial policy referred to in Article 17.1 MIFIR to comply with the pre-trade transparency obligations applicable to Systematic Internalisers (hereinafter referred to as “Policy”).

Additionally, this Policy also details the post trade transparency obligations applicable to Systematic Internalisers according to MIFIR and Commission Delegated Regulation (EU) 2017/583 of 14 July 2016 supplementing Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments with regard to regulatory technical standards on transparency requirements for trading venues and investment firms in respect of bonds, structured finance products, emission allowances and derivatives.

Corporate Compliance will perform the policy review, at least annually.

2 DEFINITIONS AND SCOPE

For the purpose of this Policy, the following is considered in-scope:

- Definition of the objective and non-discriminatory criteria to provide access to quotes to Santander clients (for those instruments where Santander is Systematic Internaliser)
- Pre-trade transparency obligations and access to firm quotes.
- Financial instruments under Santander’s Systematic Internaliser Regime

Acronyms and Abbreviations

Acronym/Term	Description
APA	Approved Publication Arrangement as set out in art. 4 (1) (52) of MiFID II. Santander has selected TRAX as APA
ECC	Central Counterparty
CCS	Cross Currency Swap
MiFID II	Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.
MiFIR	Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.
OTC	Over the Counter.
IS	Systematic Internaliser
ToTV	Traded on a trading venue.
TV	Trading Venue means Regulated Market, Multilateral Trading Facility (MTF) or Organised Trading Facility (OTF), as defined in MiFID II.

Systematic Internaliser is defined as an investment firm which, on an organized, frequent systematic and substantial basis, deals on own account when executing client orders outside a regulated market, an MTF or an OTF without operating a multilateral system¹.

The frequent and systematic basis shall be measured by the number of OTC trades in the financial instrument carried out by the investment firm on own account when executing client orders.

The substantial basis shall be measured either by the size of the OTC trading carried out by the investment firm in relation to the total trading of the investment firm in a specific financial instrument or by the size of the OTC trading carried out by the investment firm in relation to the total trading in the Union in a specific financial instrument.

The definition of a Systematic Internaliser shall apply only where the pre-set limits for a frequent and systematic basis and for a substantial basis are both crossed or where an investment firm chooses to opt-in under the Systematic Internaliser regime.

3 SCOPE OF APPLICATION AND TRANSPOSITION BY SUBSIDIARIES

This Policy is prepared by Banco Santander, S.A., in its condition of parent company of Santander Group, resulting directly applicable to the Corporate Center, and is provided to the entities, in scope of MiFID II regulation, comprising the Group as a reference document, establishing the rules to be applied to the subject to which it refers.

Group entities in scope of MiFID II regulation, which are Systematic Internalisers for any financial instrument, are responsible for developing and approving in their respective governing bodies their own internal regulation that allows the application within its scope of the provisions contained in the Group regulation, with the absolutely essential adjustments, if any, to make them compatible and meet regulatory requirements or the expectations of their supervisors.

Such approval must contain the validation of the Corporate Center, in order to ensure consistency with the regulatory system and the internal governance.

4 SYSTEMATIC INTERNALISER REGIME

The Systematic Internaliser regime and the obligations triggered to those entities that fulfil this definition (and therefore become Systematic Internaliser for certain financial instruments) entered into force in September 2018. Therefore, pre-trade transparency obligations are applicable for those instruments in scope.

4.1 Pre-trade Transparency Obligations

Santander shall publish the quotes to comply with pre-trade transparency obligations for those instruments in which it is a Systematic Internaliser.

The pre-trade transparency obligations vary where the instrument is liquid or not, as detailed below:

¹ Article 4.1 (20) MiFID II

4.1.1 *Pre-trade transparency obligations for equities and equities like*

Pre-trade transparency obligations for equity and equity-like instruments are set out in Article 14 MiFIR that includes “Obligations for systematic internalisers to make public firm quotes in respect of shares, depositary receipts, ETFs, certificates and other similar financial instruments”.

Under this article, it is defined that:

1. Systematic Internalisers shall make public firm quotes with respect of those shares, depositary receipts, ETFs, certificates and other similar financial instruments that:
 - Are traded on a trading venue and
 - For which there is a liquid market
2. Systematic Internalisers shall disclose quotes to their clients upon request with respect of those shares, depositary receipts, ETFs, certificates and other similar financial instruments that:
 - Are traded on a trading venue and
 - For which there is not a liquid market

This obligation may be waived where the conditions specified in Article 4(1) MiFIR are met.

4.1.2 *Pre-trade transparency obligations for non-equity instruments*

Pre-trade transparency obligations for non- equity instruments are set out in Article 18 MiFIR that includes “Obligation for systematic internalisers to make public firm quotes in respect of bonds, structured finance products, emission allowances and derivatives”

Under this article, it is defined that:

1. Systematic Internalisers shall make public firm quotes in respect of bonds, structured finance products, emission allowances and derivatives if they are prompted for a quote by a client and if the Systematic Internaliser agrees to provide the quote for financial instruments where they are Systematic Internalises that:
 - Are traded on a trading venue and
 - There is a liquid market
2. Systematic Internalisers shall disclose their quotes in respect of bonds, structured finance products, emission allowances and derivatives upon request and if the Systematic Internaliser agrees to provide the quote for financial instruments where they are Systematic Internalises that:
 - Are traded on a trading venue and
 - There is a not liquid market

This obligation may be waived where the conditions specified in Article 9(1) MiFIR are met.

4.2 Post-trade transparency obligations

According to Article 20 and 21 MiFIR, Santander shall make public the volume and price of those transactions and the time at which they were concluded. That information shall be made public through an APA. However, where a transaction between two investment firms is concluded outside the rules of a trading venue, either on own account or on behalf of clients, only the investment firm that sells the financial instrument concerned shall make the transaction public through an APA.

Nevertheless, where only one of the investment firms party to the transaction is a systematic internaliser in the given financial instrument and it is acting as the buying firm, only that firm shall make the transaction public through an APA. In this situation, we will inform our counterparties that post trade transparency obligations will be fulfilled by Santander in compliance with article 7 (6) Delegated Regulation (EU) 2017/583.

Santander will publish the required information through TRAX. Post trade transparency obligations may be deferred where conditions in Article 7 and 11 of MiFIR are met.

5 ACCESS TO QUOTES

Santander clients may access quotes published by Santander (MIC Code SANT) in TRAX APA in accordance with pre-trade transparency obligations (as set out in Section 2.1) through the following communication channels:

- Phone
- Bloomberg chat
- E-mail

Santander has established an objective and non-discriminatory classification of its clients that will determine which of those clients, under the same tier, can act upon the published quotes in compliance with the pre-trade transparency obligations.

Subject to applicable regulation, Santander will allow access to its SI quotes to all clients who:

- a) have been accepted in accordance with Santander's onboarding processes and have been classified under MiFID II;
- b) have complied Santander's compliance requirements (including, but not limited to, any requirements set out in law or regulation regarding anti-money laundering and sanctions);
- c) are not engaged in any attempt, in Santander's view, to create disorderly markets, (including, but not limited to, any action that would breach, the Regulation (EU) No 596/2014 ("MAR"));
- d) have obtained and provided to Santander a valid legal entity identifier (LEI); and
- e) have complied with any technical or connectivity specifications required to receive SI quotes.

Without prejudice of criteria listed above, Santander may decline to provide or grant access to the quote taking into account the following criteria:

- a. **Counterparty risk (not applicable for bonds):** internal or external benchmarks that determine that there is "counterparty risk" in relation to a client. We will make this determination with

reference to internal risk management factors (e.g. CVA) such as our exposure to such a client and external benchmarks used to calculate counterparty risk;

- b. **Contractual terms:** we may decline to trade with the Requesting Client at the SI Quote, where the SI Quote provided to the Original Client is subject to particular contractual terms under a relevant master agreement (e.g. ISDA) and/or collateral agreement (e.g. CSA) if similar contractual terms are not in place with the Requesting Client, including in relation to trade economics, credit profile, settlement risk or any other objectively measurable economic risk parameter;
- c. **Trade specification:** we may decline to trade with the Requesting Client at the SI Quote, where the Requesting Client requests for a quote at the SI Quote for a different trade size, duration or specification to the Original Client;
- d. **Trades cleared on different CCPs (not applicable for bonds):** we may decline to trade with the Requesting Client at the SI Quote, where the SI Quote provided to the Original Client related to a trade that was intended to be cleared at a specific or designated CCP, whereas the Requesting Client intends for the trade to be cleared on a different CCP;
- e. **Latency:** we may decline to trade with the client at the SI quote, where the SI quote provided to the Original client has become stale (and is no longer executable) if market conditions change or with the lapse of time (taking into account the liquidity and characteristics of the market for the SI Instruments in question).

5.1 Quote validity and transaction limits

5.1.1 Normal market circumstances

Santander will publish firm quotes during standard market trading hours on Business Days according to the venue calendar.

Notwithstanding, according to MiFIR article 18 (7) “systematic internalisers shall be allowed to establish non-discriminatory and transparent limits on the number of transactions they undertake to enter into with clients pursuant to any given quote”.

In order to protect Santander from undue risk, **we will undertake one transaction for every single quote we publish**. When the client has only executed a part of the quote, the remainder of the quote remains available for execution to other clients up to full volume of the quote.

Finally, as stated in MiFIR article 18 (3) “systematic internalisers may update its quotes at any time”. Taking this into account, and subject to any other validity considerations, Santander’s quotes remain valid for a period of 5 (five) seconds, unless otherwise stated in the quote. After these periods, our quotes shall auto-expire.

5.1.2 Exceptional circumstances

Systematic Internalisers may define those exceptional conditions that permit quote withdrawal as stated in article 18 (3) MiFIR “(...) may withdraw their quotes under exceptional market conditions.”

Santander will be entitled to withdraw published quotes where exceptional market conditions occur as defined below:

Exceptional market conditions are considered to exist where to impose on a Systematic Internaliser an obligation to provide firm quotes to clients would be contrary to prudent risk management and, in particular, where:

- a) the trading venue where the financial instrument was first admitted to trading or the most relevant market in terms of liquidity halts trading for that financial instrument in accordance with Article 48(5) of Directive 2014/65/EU;
- b) the trading venue where the financial instrument was first admitted to trading or the most relevant market in terms of liquidity allows market making obligations to be suspended;
- c) in the case of an exchange traded fund, a reliable market price is not available for a significant number of instruments underlying the ETF or the index;
- d) a competent authority prohibits short sales in that financial instrument according to Article 20 of Regulation (EU) No 236/2012 of the European Parliament and of the Council (8).

6 GOVERNANCE

Corporate Compliance (2LOD):

- Annually review this Policy.
- Verify this Policy is updated.
- Verify compliance with this Policy based on the controls performed by the 1LOD.
- Verify the Policy is provided to the clients.

Regulatory Affairs & Compliance SCIB:

- Monitor SI thresholds to identify financial instruments for which the bank is SI.
- Ensure that pre-trade transparency obligations defined in this Policy are fulfilled, through the execution of the controls defined in MiFID II's control framework.
- Verify that quotes are published according to the criteria defined in this Policy.

Front Office SCIB:

- Provide pre-trade quotes according to the criteria defined in this Policy.

7 OWNERSHIP, INTERPRETATION, DATE OF VALIDITY AND PERIODIC REVIEW

- The approval of this document corresponds to the Compliance Committee.
- The interpretation of this document corresponds to the Compliance Committee.
- This document will take effect on the date of its publication. Its contents will be subject to periodic review, being made or if appropriate, any changes or modifications deemed appropriate.
- This document is a translation of an original text in Spanish. In case of any discrepancy between both texts, the Spanish version will prevail.

8 VERSION CONTROL

Versión documento	Responsable Mantenimiento	Aprobación	
		Comité	Fecha
2CM146-1	R. Fernández	Regulatory Compliance Committee	30/11/2018
2CM146-2	P. Botia	Compliance Committee	16/07/2020

Versión documento	Comentarios
2CM146-1	First Policy Version
2CM146-2	Policy review to adapt access criteria.