



CAVENDISH
MARKETS

Policies & Statements

Version 1.1

NL (HQ): Herengracht 420, 1017BZ, Amsterdam, Netherlands
UK: Thanet House, 231-232 Strand, London WC2R 1DA, UK





CAVENDISH MARKETS

Our Service	2
Regulation	3
Anti-Money Laundering	4
Treating Clients Fairly.....	5
Professional Communication	6
Conduct and Dispute Resolution.....	6
Post Confirmation Disputes	6
Client Conduct.....	8
Employee Conduct	9
Variation.....	9

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Our Service

Cavendish Markets provides its client with broking services, acting as an intermediary for transactions conducted between its clients. Cavendish Markets facilitates transactions involving European and UK wholesale natural gas, liquified natural gas (LNG) and electricity/power commodities and derivatives. Cavendish Markets only supports physically-delivered, over-the-counter (OTC) products within these asset classes.

Cavendish Markets facilitates trading between its clients by finding mutually agreeable terms via which they can transact. Cavendish Markets serves a range of clients, all of whom are sophisticated market participants, including energy producers, energy suppliers, banks and institutional investors. Cavendish Markets provides value to their clients by:

- enhancing price discovery and transparency;
- improving market liquidity;
- providing pre-trade anonymity; and
- aiding information flow.

Cavendish Markets acts in a “Name Passing” capacity, taking on an arranging role in a transaction between two or more counterparties. Cavendish Markets arranges transactions using a “voice-brokered” approach. Cavendish Markets communicate prices and/or volumes to their clients over a range of media including recorded telephone/VoIP lines, instant messaging services, email and the PLEXHUB¹ communication platform. Prices, volumes and other details of the contract and/or quote are communicated based on market convention. Quotes will be identified as being either “firm” or as showing “indicative” levels of interest. Cavendish Markets will never show a quote that is not backed by a counterparty or that they believe the counterparty has no intention, or is incapable, of trading at the level shown.

Counterparty credit risk is an important pre-trade consideration and Cavendish Markets will, based on the credit information supplied by both counterparties, endeavour to ensure counterparties can trade with each other prior to passing names. Once terms have been agreed and names exchanged, a bilateral trade is formed between the two counterparties, subject to final biparty agreement on the contractual terms and conditions and credit, and a trade confirmation is sent jointly, to both counterparties, by Cavendish Markets. As this

¹ Please go to www.plexhub.com for more information.

stage, the transaction is considered completed and, unless a dispute is raised, Cavendish Markets plays no further role.

For avoidance of doubt, Cavendish Markets will never act as a principal (or riskless principal) in any transactions. Cavendish Markets will never act as a fiduciary for its clients. Cavendish Markets will never act in an “exchange give up” capacity and does not facilitate trading on exchange or other regulated market.

Regulation

REMIT

Cavendish Markets facilitates trading in physically-delivered, OTC European & UK gas and electricity derivative products, which fall under the scope of the REMIT regulation². When providing broking services, Cavendish Markets adopts the REMIT role of Organised Market Place (OMP) and is registered as an OMP with ACER³. As an OMP, Cavendish Markets is obliged to maintain a list of Standard Contracts that it supports, which is submitted to-, and published by-, ACER. As an OMP, Cavendish Markets is obliged to report transactions on behalf of their clients, to ACER. To do so, Cavendish Markets uses the services of two Recognised Reporting Mechanisms (RRMs), namely, the RRM operated by Equias⁴ and Trayport⁵. Clients of Cavendish Markets are required to be signed-up to one or other of these RRM so that Cavendish Markets can fulfil their transaction reporting duties.

² REGULATION (EU) No 1227/2011 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 25 October 2011 on wholesale energy market integrity and transparency

³ Agency for the Cooperation of Energy Regulators (ACER)

⁴ <https://www.equias.org/err-electronic-regulatory-reporting>

⁵ <https://www.trayport.com/traders/complete-emir-remit/>

MiFID II

No product offered by Cavendish Markets qualifies as a financial instrument under MiFID II⁶. As such, Cavendish Markets is not a financially regulated entity and does not undertake any financially regulated activities.

Anti-Money Laundering

Cavendish Markets operates in the Netherlands and the UK. Since Cavendish Markets is not a financially regulated firm, Cavendish Markets is beholden to the AML rules defined by the supervisory institutions in those jurisdictions, namely the Central Bank and Financial Intelligence Unit (FIU), in the Netherlands, and the HMRC, in the UK. These rules are contained within the Financial Supervision Act (Wet op het financieel toezicht / Wft), the Anti-Money Laundering and Counter-Terrorist Financing Act (Wet ter voorkoming van witwassen en financieren van terrorisme / Wwft) (and the Trust Offices Supervision Act (Wet toezicht trustkantoren / Wtt) and the Sanctions Act 1977 (Sanctiewet 1977 / SW)).

For ease of adoption, these supervisory institutions define a clear set of criteria that determine whether a firm should have specific, heightened AML obligations, including the requirement to register with the supervisory body. These translate to a set of industry sectors that have a specific AML mandate, none of which relate to the business conducted by Cavendish Markets. Cavendish Markets does not handle client money and does not make or receive payments in cash or trade in Goods. And, for the avoidance of doubt, Cavendish Markets does not provide any trust or similar company services. As such, as a non-financially regulated firm and one outside the sectors considered to be high-risk for AML, Cavendish Markets do not have specific, heightened AML obligations or a need to register with a supervisory body.

It is, however, policy at Cavendish Markets to only operate with clients that have a clearly understood purpose for trading the physically-delivered, energy contracts supported by Cavendish Markets. As part of their role, brokers at Cavendish Markets are mandated to understand the types of products their various trading clients are typically involved with and to understand the motivations behind those trades. If trading behaviour is deemed to suddenly change or trading motivation becomes obscured, it is the policy of Cavendish

⁶ MiFID II is made up of MiFID (Directive 2014/65/EU of the European Parliament and Council on markets in financial instruments) and MiFIR (Regulation 600/2014/EU of the European Parliament and Council.).

Markets to seek clarification for the changes from the individual trader and/or their line manager, as appropriate. If clarification is considered inadequate, Cavendish Markets reserves the right to take any further action that it considers appropriate.

Treating Clients Fairly

Cavendish Markets has a responsibility to treat its clients fairly and equally and will always take reasonable steps to ensure transactions are settled with mutually favourable terms. Cavendish Markets will use reasonable endeavours to ensure the best possible results for all its clients, considering factors such as the following, when working their orders by voice:

- Market liquidity;
- Order size;
- Complexity of the order;
- Likely interest and likelihood of trade;
- Market conditions such as volatility;
- Credit lines with counterparties; and
- Any specific client instructions.

Cavendish Markets will treat all counterparties involved in a transaction equally, both pre- and post-trade, independent of, but not limited to, the fee that the client will pay for the service. Cavendish Markets only serve professional clients and consider all clients to be equally well-informed, sophisticated market participants. Cavendish Markets will not service a customer if there is doubt that they can be responsibly treated as a professional client.

While Cavendish Markets takes all reasonable steps to ensure our clients receive the best possible service, there are situations that might lead to substandard results, for example:

- When Cavendish Markets has not received adequate or up-to-date credit information from one or other counterparty.
- When a client instructs multiple brokers to work a given order; or
- When a client bilaterally works an order they have given to Cavendish Markets; or
- When a client initiates a market with a broker that is already being worked by a different broker; or
- When technical or other reasons stop prompt communication between the broker and one or other counterparty.

Cavendish Markets endeavours to ensure that all interested and eligible parties are kept abreast of the most recent updates on any given order, however, due to the nature of voice broking and the bilateral communication it involves, it may not always be possible to do so synchronously. In such situations, Cavendish Markets will ensure that the first communication of any updated bid or offer will always include the most aggressive counterparty. The Aggression of a counterparty is judged first on price, then on order size, preferring counterparties that can trade the full volume being sought, and finally by the time at which the counterparty expressed their interest, on a “first come first serve” basis.

Professional Communication

Communication between Cavendish Markets and their clients may proceed via spoken and/or written media and/or via the transfer of materials, both digital and/or otherwise. All communication must adhere to professional standards. Communication considered unprofessional is strictly forbidden, including but not limited to, communication that is unlawful, harmful, threatening, defamatory, obscene, infringing, harassing or racially or ethnically offensive; facilitates illegal activity; is sexually explicit; promotes unlawful violence; is discriminatory based on race, gender, colour, religious belief, sexual orientation, disability; or is otherwise illegal or facilitates damage or injury to any person or property.

Conduct and Dispute Resolution

Post Confirmation Disputes

At the point Cavendish Markets jointly issues a trade confirmation to the counterparties, the transaction is considered traded subject to final biparty agreement on the terms and conditions and credit. If prior to the bilateral agreement being fully ratified, one or other counterparty then raises a dispute via Cavendish Markets, indicating the bilateral agreement may not proceed under the confirmed terms, their complaint will be handled as set out below.

Trade Confirmation Error

If the complaint pertains to a mistake in the trade confirm, either a misrepresentation of the understood contractual terms or the agreed trade price or volume, it will first be directed to

the counterparty. If the counterparty agrees the trade confirmation is incorrect, it will be updated by Cavendish Markets accordingly and the corrected version re-issued.

If the counterparty does not agree with the complainant and instead believes the initial trade confirmation is a true reflection of the agreed trade, Cavendish Markets will analyse the recorded communication that lead up to the perceived agreement of transaction terms to identify which counterparty is at fault. If it is clear which counterparty is at fault, Cavendish Markets will present the evidence to that counterparty and request that they honour their agreement, as specified on the recorded medium. If the counterparty refuses to honour their agreement, Cavendish Markets reserves the right to take whatever further action that it considers appropriate.

If the record instead shows that the claim stems from ambiguous language used by the broker and/or not clarified by the broker, then neither counterparty is considered at fault and the transaction will be considered void and cancelled. While Cavendish Markets endeavours to minimise the occurrence of such events, due to the fast-paced nature of voice brokered communication, it is impossible to eliminate them altogether.

Insufficient Credit

If the complaint is that insufficient lines of credit exist between the counterparties for the trade to proceed, Cavendish Markets will consult with both parties to see if a solution can be found. If it cannot, the transaction will be cancelled. Cavendish Markets will conduct an analysis of the credit information it is provided by both counterparties to see if this situation could have been avoided. While Cavendish Markets endeavours to minimise the occurrence of such events, due to complexity of the products and the counterparty credit risk they represent, it is impossible to eliminate them altogether.

Contractual Terms and Conditions

While the economic terms for the bilateral contract will have been agreed and confirmed by Cavendish Markets, a dispute may arise due to non-economic contractual terms that were not explicitly agreed at the point of trade confirmation. In such a situation, Cavendish Markets can facilitate communication between the two counterparties however, the situation must ultimately be resolved bilaterally. If it cannot be resolved, the trade will be cancelled.

Post Bilateral Agreement Ratification

Any dispute that occurs after the bilateral agreement has been fully ratified should be raised directly with the counterparty and governed by the dispute resolution provisions prescribed by any relevant bilateral contract agreed between the counterparties.

Client Conduct

All clients are required to use the service in good faith and act in a professional and appropriate manner at all times. Clients may not act in a dishonest, fraudulent or illegal way, knowingly propagate false or misleading information or otherwise attempt to manipulate a market, or participate in any behaviour that is considered market abuse as defined in REMIT (regulation EU No 1227/2011) and the Market Abuse Regulation (EU No 596/2014).

All orders given to Cavendish Markets must truly reflect the client's trading intentions. Orders must be communicated via an agreed recorded medium. If required, clients are expected to provide Cavendish Markets whatever information is required to disambiguate their order.

By default, orders are treated as "firm" until the client indicates otherwise. It is required of the client that, should a counterparty be found for a firm order, they honour all aspects of the order, exactly as specified on the recorded medium. If the client's order is not firm, no longer firm or should only be considered firm for a given length or time, they must inform the broker promptly. Cavendish Markets will accept orders that have been identified as "indicative" and will work them accordingly.

It is required that all clients that have an active order with Cavendish Markets take reasonable steps to ensure they remain contactable via one or other acceptable recorded medium. If this will not be the case, they must tell the broker ahead of time so that any interested counterparties can be kept informed.

Clients are required to adhere to the same standards as outlined in this document, regarding professional communication.

If a client is believed to be in breach of the standards of conduct expected, Cavendish Markets reserves the right to take whatever action it deems fit and appropriate.

Employee Conduct

If a client wishes to raise a complaint that an employee of Cavendish Markets has not acted in a professional and/or appropriate way, including, but not limited to, concerns that they have failed to follow the policies as set out in this document, they may do so by contacting Cavendish Markets compliance. This can be done via:

- Email at: compliance@cavendishmarkets.com; or
- Post at: Cavendish Markets Compliance, Thanet House, 231-232 Strand, London WC2R 1DA, UK.

Variation

Cavendish Markets maintains the right to be able to review and update the description of its service and/or make reasonable variations to its policies, as described in this document, from time to time, at its own absolute discretion. Any changes will be reflected in an updated version of this numerically versioned document and published via our website: www.cavendishmarkets.com. This latest version of this document can also be requested by emailing Cavendish Markets at: compliance@cavendishmarkets.com.