Ex Ante Costs & Charges Disclosure for Equity Derivative Transactions

Product Scope for Ex-Ante disclosure of Equity Derivative Costs & Charges

The financial instruments that this disclosure applies to are OTC equity derivatives including forwards, futures, equity swaps, variance swaps, dividend swaps, options, and ETFs.

Price formation

Price formation in the Equity Derivative businesses generally takes the following approach:

- Firstly, formation of an instrument price which takes into account factors including the following: observable market prices, executed transactions, volatility data, other market data, internal models and observable trade flows.
- Followed by the application of Costs and Charges to form the final client price.

Costs & Charges

Costs and charges which may be applicable to the equity derivative products as described above may be categorized as follows:

a) **Costs and charges relating to investment and ancillary services**: Charges associated with investment and ancillary services provided to the client.

b) **Transaction related costs**: This includes commission associated with the manufacturing and managing of a financial instrument.

c) **Credit Valuation Adjustment**: Charge to reflect the counterparty credit risk of a transaction. This charge is calculated taking into account the credit worthiness of the client, the credit worthiness of the bank, any credit mitigants and the expected future exposure of the transaction.

(d) **Funding Charges**: Charge or benefit, determined to reflect the total expected cost (or benefit) to the bank of funding the collateralised or non-collateralised position on the relevant trade or any associated market hedge.

Pricing Factors impacting the level of Costs and Charges

Costs and Charges applied to equity derivative products vary depending upon a number of client specific and non-client specific factors. Examples of factors that may impact the level of Costs and Charges applied include:

- **Credit support**: Where a client has in place an ISDA and Credit Support Annex with Barclays, this may decrease the level of credit charges applied to derivatives falling under the ISDA.
- **Clearing**: A central counterparty clearing house (CCP) is a corporate entity that reduces counterparty, operational, settlement, market, legal and default risk for traders. A CCP becomes the counterparty to the buyer and the seller and guarantees the terms of a trade even if one party defaults on the agreement. The level of credit charges applied to derivative trades cleared through a CCP may be decreased.
- **Maturity**: Where a derivatives trade has a greater maturity, this may increase the level of funding and credit charges applied to such trade.
- **Liquidity:** Where a trade is executed at a time of lower liquidity, this may increase the level of hedging costs associated with such trade.