

Corporate & Institutional Banking

Illustration of impact of execution costs on holding period return

Mandatory disclosure under Delegated Regulation (EU) 2017/565, article 50

As of January 3rd, 2018

Dear client,

To be compliant with new MiFID II regulations for client fee disclosures, ABN AMRO CLEARING BANK NV would like to inform you about how the fee that is charged for executing your trade on an exchange affects the holding period return of the instruments bought or sold, by giving a few generic examples. The examples given below are designed to make you aware of the fact that the execution costs that are charged per transaction lower the return you receive. Execution fees can vary per exchange.

ABN AMRO CLEARING BANK NV execution costs are charged per transaction, the height of the execution fee may be a fixed amount, or may depend on the number of shares traded, the number of lots traded, or the value of the transaction. The holding period return (HPR) for a long position is calculated as follows:

$$HPR = \frac{(Quantity \times (Price \text{ at time of sale} - Price \text{ at time of purchase})) + Income - Costs}{Quantity \times Price \text{ at time of purchase}}$$

The following examples have been included to clarify how to calculate the impact of fees charged by ABN AMRO CLEARING BANK NV for execution services on holding period return.

Scenario 1: No transaction fees

In order to understand the impact of costs on holding period return, we first need to consider the scenario in which no costs are incurred. Suppose the client buys 1 million shares of company XYZ at a price of €20,-, and sells 1 million shares of company XYZ at a price of €21,- at a later time. In the absence of costs and dividends, the holding period return would be:

$$HPR = \frac{(1.000.000 \times (\text{€}21 - \text{€}20)) - \text{€}0}{1.000.000 \times \text{€}20} = 5\%$$

Scenario 2: Fixed transaction fee

ABN AMRO CLEARING BANK NV charges a fixed transaction fee of €300,-. The client buys 1 million shares of company XYZ at a price of €20,-, and sells 1 million shares of company XYZ at a price of €21,- at a later time. There are no dividends. The client incurs transaction fees of €300,- twice (once for the purchase, once for the sale). The client therefore pays €600,- for ABN AMRO CLEARING BANK NV execution services¹. The holding period return on the position of 1 million shares of company XYZ would be:

$$HPR = \frac{(1.000.000 \times (\text{€}21 - \text{€}20)) - \text{€}600}{1.000.000 \times \text{€}20} = 4.997\%$$

Scenario 3: Transaction fee depends on the number of shares/lots

ABN AMRO CLEARING BANK NV charges execution fees of €0,005 per share. The client buys 1 million shares of company XYZ at a price of €20,- and sells 1 million shares of company XYZ at a price of €21,- at a later time. There are no dividends. The client incurs transaction fees of 1 million * €0,005 = €5.000,- twice (once for the purchase, once for the sale). The client therefore pays €10.000,- for ABN AMRO CLEARING BANK NV execution services¹. The holding period return on the position of 1 million shares of company XYZ would be:

¹ Note that 3rd party costs or other ABN AMRO CLEARING BANK NV service costs are not included in this example

$$HPR = \frac{(1.000.000 \times (\text{€}21 - \text{€}20)) - \text{€}10.000}{1.000.000 \times \text{€}20} = 4.95\%$$

Scenario 4: Transaction fee depends on the value of the transaction

ABN AMRO CLEARING BANK NV charges execution fees of 1 basis point per transaction. The client buys 1 million shares of company XYZ at a price of €20,- and sells 1 million shares of company XYZ at a price of €21,- at a later time. There are no dividends. The client incurs transaction fees of 1 million * €20,- * 0.0001 = €2.000,- for the purchase, and 1 million * €21,- * 0.0001 = €2.100,- for the sale. The total fee would be €4.100,- for ABN AMRO CLEARING BANK NV execution services¹. The holding period return on the position of 1 million shares of company XYZ would be:

$$HPR = \frac{(1.000.000 \times (\text{€}21 - \text{€}20)) - \text{€}4.100}{1.000.000 \times \text{€}20} = 4.9795\%$$

Scenario 5: Fixed transaction fee and a monthly subscription fee

ABN AMRO CLEARING BANK NV charges a fixed transaction fee of €300,-. Furthermore, ABN AMRO CLEARING BANK NV charges a monthly FIX connection fee of €1.600,-, and a monthly GES fee of €600,- per trader. The client employs 3 traders. The monthly fees for this client are €1.600,- + (3 * €600,-) = €1.500,- + €1.800,- = €3.400,-. This client does 100 transactions per month, and allocates its monthly fees per transaction. The client would allocate €3.400,-/100 = €34,- to each transaction. The total costs per transaction would be €334,-. The client buys 1 million shares of company XYZ at a price of €20,-, and sells 1 million shares of company XYZ at a price of €21,- at a later time. There are no dividends. The client incurs transaction fees of €334,- twice (once for the purchase, once for the sale). The client therefore pays €668,- for ABN AMRO CLEARING BANK NV execution services¹. The holding period return on the position of 1 million shares of company XYZ would be:

$$HPR = \frac{(1.000.000 \times (\text{€}21 - \text{€}20)) - \text{€}668}{1.000.000 \times \text{€}20} = 4.997\%$$

A general conclusion that can be drawn from the examples given above, is that when execution costs are charged (scenario 2, 3, 4, 5), the holding period return is lower than the holding period return you receive when no execution costs are charged (scenario 1).

Please note: The numbers given in the examples above are hypothetical, and used to demonstrate how to calculate the impact of execution fees charged by ABN AMRO CLEARING BANK NV on holding period return. These figures are not considered to be representative of actual client agreements.

¹ Note that 3rd party costs or other ABN AMRO CLEARING BANK NV service costs are not included in this example

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