

# Best Execution Policy

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Crossbridge Capital LLP

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## **1 Introduction**

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This document (“the Policy”) sets out the approach taken by Crossbridge Capital LLP (“the Firm”) in ensuring that the best outcome is obtained for its clients on consistent basis when executing client orders and transmitting orders to third parties for execution.

This Policy has been updated to take into account new rules arising as a result of the implementation of the Markets in Financial Instruments Directive 2014/65/EU (“MiFID II”) that came into force on 3 January 2018. Other FCA Rules and Guidance have been taken into account in designing this Policy, as have other EU regulations and ESMA Guidance where appropriate.

This Policy applies only to the execution or transmission of client orders in Financial Instruments<sup>1</sup>, as defined in MiFID II, except where noted otherwise. It also reflects the fact that the Firm deals with both professional and retail clients.

### **1.1 The Best Execution obligation**

FCA rules place a high-level obligation on firms to ensure that client orders are executed on terms that are most favourable to that client, which is referred to as the ‘best execution obligation’.

MiFID II has further enhanced this standard, by requiring that firms take ‘all sufficient steps’ to obtain the best possible result for its clients on a consistent basis when executing orders.

For the purposes of this Policy and in relation to the best execution rules more generally, the term “client order” should be understood to mean all orders in financial instruments, whether they are executed direct in the market or transmitted to another firm to execute on the Firm’s behalf that are carried out on behalf of a client. This includes orders that arise in relation to discretionary portfolio management and fund management activities, and therefore originate within the Firm rather than with the client. In this situation, the Firm still has a best execution obligation in relation to the execution of this order. Indeed, the obligation is widened in this situation as it applies both to the trader, in executing the trade order, and also to the portfolio manager when giving instructions to the trader (where these roles are separated). The portfolio manager must therefore also consider his best execution obligation when giving instructions to the trader on how the order is to be executed.

The Firm’s commitment to provide best execution does not impose any additional fiduciary duty upon the Firm over and above the regulatory obligations in place or any terms agreed on a contractual basis between the Firm and its clients.

### **1.2 Application of FCA and EU regulations**

For investment firms authorised under MiFID, the best execution rules relating to direct execution are contained in Article 27 of MiFID II and the corresponding level 2

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<sup>1</sup> These are defined in Annex 1 Section C of the MiFID II Directive and reproduced in Appendix 1 for reference.

provisions<sup>2</sup>. Separate requirements apply when orders are transmitted to a custodian (“indirect execution”) and these are set out primarily in Article 65 of the MiFID II Delegated Org Regulation<sup>3</sup>. These requirements have been implemented by the FCA in the UK in COBS 11.2A.

### **1.3 Direct and indirect execution**

The nature of the best execution obligations differs depending on whether the Firm is executing orders directly, or whether these orders are being transmitted to third parties (i.e. custodians) for execution.

Direct execution includes situations where the Firm interacts directly with other counterparties to the trade, without going through a custodian, and in addition covers situations where the Firm uses its own membership of a Trading Venue<sup>4</sup>, or otherwise places an order directly with an Execution Venue<sup>5</sup> in order to execute the trade.

Indirect execution refers to the practice of transmitting orders to custodians, for which the custodian is then responsible for execution. These orders may be transmitted to the custodian by a variety of methods, including by telephone, Bloomberg chat, email and electronic order entry and transmission systems (e.g. FIX).

The Firm primarily transmits orders to client’s custodian banks, but in some situations e.g. structured instruments will also directly execute orders. The list of instruments in which the Firm trades, including a breakdown of which instruments are executed directly and indirectly is included in Appendix 2.

As set out above, in the event that specific instructions are received from a client in respect of the execution of a transaction, the Firm is deemed to have complied with its best execution obligations by following those specific instructions. Clients may not be induced to give specific instructions in order to remove the need for the provision of best execution.

### **1.4 Classes of financial instrument**

Firms are required to tailor their execution policy to provide sufficient information on how orders are executed in relation to each class of financial instrument traded by the Firm. It is recognised that the process for executing liquid equity instruments will be very different to the process for executing OTC derivatives, for example, and a single undifferentiated policy is therefore likely to be overly generic. MiFID II provides a classification scheme for the different classes of financial instrument in Annex 1 of RTS 28, and this list is reproduced in full in Appendix 2 of this Policy.

The Firm currently actively trades in the below classes of financial instruments:

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<sup>2</sup> For example, Articles 64 and 66 of the MiFID II Delegated Org Regulation and RTS 28.

<sup>3</sup> Commission Delegated Regulation (EU) 2017/565 of 25 April 2016

<sup>4</sup> A Trading Venue is defined as a Regulated Market, MTF or OTF.

<sup>5</sup> Execution Venues include regulated markets (i.e. exchanges), MTFs, OTFs, systematic internalisers, market makers and ‘any other liquidity provider or an entity that performs a similar function in a third country’.

- Equities
- Equity derivatives
- Bonds
- Currency derivatives
- Structured instruments

Of these instruments, only structured instruments are executed directly with counterparties and therefore the full MiFID II best execution rules apply in relation to these instruments.

The complete list of the different classes of MiFID II financial instruments is contained in Appendix 2 of this Policy, together with the Firm's assessment of which classes are actively traded by the Firm and which of these are directly and/or indirectly executed.

Where appropriate, this Policy will differentiate between each execution review of the above classes of financial instrument.

### **1.5 Application of Policy to non-financial instruments**

MiFID II best execution requirements only apply in relation to financial instruments as defined in MiFID II (see Appendix 1 and Appendix 2). However, the Firm is subject to a general regulatory obligation to treat clients fairly as well as to manage any conflict of interest, and as such we endeavour to deliver the best result to clients in all transactions.

For the avoidance of doubt, the Firm does not trade on behalf of clients in any investments that are not MiFID II financial instruments.

### **1.6 Execution Factors**

The Firm is obliged to seek the best possible result for its client in relation to each trade. What constitutes the best possible result however may vary depending on the situation, and this may not always equate to obtaining the best price or the lowest cost. The Firm is therefore required to consider and assess the relative importance of the relevant 'execution factors' in respect of each class of financial instrument in which it trades. The Execution Factors defined in FCA rules<sup>6</sup> are as follows:

- Price – This is the price at which a transaction is executed. Where the price has varied across the transaction the blended average price should be considered.
- Costs – This includes explicit external costs such as custodianage, exchange or clearing fees, as well as implicit costs such as spreads and slippage. This should be restricted to costs borne by the client and should not include the Firm's internal costs relating to trading.
- Speed – This refers to the amount of time that elapses between the trade order and the successful execution of that trade.
- Likelihood of execution and settlement – This refers to Firm's estimation of the probability that the trade order will be successfully completed either in whole or in part.

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<sup>6</sup> See COBS 11.2A.2 (2) for MiFID investment business, COBS 11.2.8 for AIFMD business and COBS 11.2.5A(2) for UCITS business.

- Size – For large orders or illiquid instruments only a partial fill may be received and this may vary between custodians and venues. Where the whole trade order is unlikely to be filled, the size of the potential fill will increase in importance.
- Nature of the order and any other relevant considerations – This is a broad category that covers any other factor not listed in the regulations that firms may wish to prioritise in order to achieve the best result for its clients. Examples of this may be the need to maintain anonymity and/or reduce the market impact of the trade, the need to minimise or diversify counterparty exposure, and the need to meet regulatory requirements such as trade publication and reporting.

Generally, the prioritisation of the execution factors should be determined once, for each relevant class of financial instruments, and then this prioritisation should be applied to all relevant trading activity by the Firm. It may be desirable however, to apply different default prioritisations of the execution factors to specific instruments or trading strategies to be applied in specific situations. In addition, there may be situations where this prioritisation needs to be adjusted, for example due to exceptional circumstances such as volatile markets, credit events and geo-political events.

Further information is given on the Firm's prioritisation of the execution factors in different situations in Chapters 2, 3 and 4 below.

## **1.7 Execution Criteria**

FCA rules<sup>7</sup> also set out the 'execution criteria' that the Firm must take into account when executing a trade. These are the particular characteristics of each trade order which need to be taken into account before applying the Firm's execution process to achieve the best possible result for the client, where the 'best result' is defined by reference to the Firm's prioritisation of the execution factors as set out above. The Execution Criteria will vary potentially from client to client and from trade to trade and will therefore need to be assessed on a continual basis. These are defined as set out below:

- The characteristic of the client – For example whether they have been classified as retail or professional and whether they are a natural person, institutional investor or a fund. The level of sophistication, trading frequency and size of portfolio may also be relevant;
- The characteristic of the client order – Factors such as the type of financial instrument, size and urgency of the order are likely to be relevant here. In addition, if the trade is a securities financing transaction then this is likely to require special treatment. In some cases, the client order may also come with specific instructions from the client.
- The characteristics of the financial instrument – Intrinsic differences in the behaviour and attributes of different financial instruments mean that they will need to be treated differently. Market conditions should also be considered, such as whether there is liquidity at the size of order being contemplated, and whether there is significant volatility in the market;
- The characteristics of the execution venues – Relevant considerations here might be the reputation and reliability of the venue, whether the order will be subject to pre-

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<sup>7</sup> See COBS 11.2A.8 for MiFID investment business, COBS 11.2.6 for AIFMD business and COBS 11.2B.7 for UCITS business

and post-trade transparency, and the types of counterparty that the order is likely to be executed against (for example, whether the order is likely to be executed against HFT firms.)

This Policy sets out in the following sections how the Firm applies the execution factors and execution criteria to achieve the best possible results for its clients on a consistent basis.

### **1.8 Relying on a single venue**

The FCA and ESMA have clarified<sup>8</sup> that it is permitted to rely on a single venue or custodian to execute client orders. However, in order to demonstrate that best execution is being provided in this situation, firms must be able to show that its reliance on this single venue or custodian provides the best possible result for its clients on a consistent basis, and that the results are at least as good as could be obtained from relying on other entities.

The Firm's policy is to never rely on a single execution venue or custodian for executing any class of financial instrument traded. The Firm will ensure that its list of approved custodians and execution venues<sup>9</sup> contains at least two possible choices for each class of instrument traded.

The only exception to this will be where there is only a single venue or custodian available in the market that is able to execute the class of instrument in question. In this situation, the Firm will rely on this entity for execution but will monitor the market for the emergence of other entities that can provide a similar function.]

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<sup>8</sup> See COBS 11.2A.29G, COBS 11.2A.36G and question 3 of the best execution section of the ESMA Q&A on MiFID II and MiFIR investor protection topics (ESMA35-43-349)

<sup>9</sup> See Appendix 3

## 2 The Execution Process

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### 2.1 Prioritisation of the Execution Factors

In terms of the relative importance attached to the execution factors, the Firm has a general view and process which it adapts based on the particular characteristics (i.e. the execution criteria) of each trade.

Where the Firm is dealing with retail clients, the Firm should prioritise price and cost together in order to achieve the best financial result for the client in terms of total consideration for the trade. This should include the Firm's own costs, to the extent that they are passed on to the client, which means that in most cases the Firm is obliged to select the execution method, venue or custodian that minimises the costs passed on to the client. The exception to this would be where the selection of a more expensive method of execution leads to a demonstrably better outcome in terms of total consideration for the trade due to an improved price being received.

The other execution factors however, including speed, size and likelihood of execution can and should still be considered, where relevant, and particularly where price and costs are distributed in a narrow range between the available execution options. It may also be necessary in extreme circumstances to prioritise the speed and probability of execution, for example in situations where the imminent failure of a counterparty may cause the total loss of the client's investment. In this situation delaying the transaction to prioritise achieving a better price/cost for the trade is not justifiable as it is likely to lead to worse overall financial outcome for the client.]

In relation to professional clients, the first execution factor to consider is the probability of execution. The priority here will be to assess which custodians and execution venues are capable of executing the order on the required terms. In normal market conditions however this is a relatively straightforward exercise that will produce a range of equally ranked execution options for further consideration under the remaining execution factors. Situations where this assessment produces a very narrow range of options due to various special circumstances are considered further in the various scenarios set out in Chapter 4 below.

Following this, and assuming a range of execution options exist, the highest priority factor is to obtain the best result for the client in terms of the total consideration for the trade, defined as the total price obtained minus any costs or fees. This will either be the highest total price or the lowest total price (net of costs and fees) depending on the direction of the trade. In most situations this will be determined predominantly by the price achieved, although where the price offered by two or more custodians are identical or within a narrow range<sup>10</sup>, or cannot be reliably determined in advance, then the one with the lowest overall cost of execution will be chosen. This analysis will include the implicit costs of the trade, such as slippage and market impact.

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<sup>10</sup> A 'narrow range' here means that the difference in price is less than the difference in costs and fees.



Where the Firm considers that it is able to take steps to reduce the costs of execution, and therefore improve the total consideration for the trade as defined above, then it will do so.

The other execution factors do not typically determine the way a trade is executed, although on occasion where there are specific relevant circumstances these factors may be escalated in prioritisation. These situations are set out in Chapter 4, below.

## **2.2 Transmission of orders to custodians**

This is the most common method and dictated by the client. In the event that specific instructions are received from a client in respect of the execution of a transaction, the Firm is deemed to have complied with its best execution obligations by following those specific instructions

The Firm is able to transmit orders to custodian banks in the following ways:

- Telephone
- Email
- Bloomberg Chat

## **2.3 Direct execution with counterparties**

With respect to trades in Structured Products we will execute these trades directly with an appropriate Execution Venue

We will assess and determine which counterparties we judge to be most likely to be able to deliver the best result for the client, in line with our prioritisation of the execution factors and request quotes from 3-4 such counterparties. Where liquidity is an issue, and therefore settlement and execution are a priority, we may consider focusing on fewer counterparties to minimise information leakage and potential impact of implicit costs on the trade. For such trades we will interact directly to obtain quotes and typically execute against the most favourable quote received. This will generally be the best price that has been offered, although our prioritisation of the execution factors and the particular circumstances may dictate that other factors be taken into account, such as size. ]

### **3 Arrangements particular to each class of financial instrument**

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All indirect order transmissions are conducted based on specific instructions received from a client in respect of the execution of a transaction. The Firm is deemed to have complied with its best execution obligations by following those specific instructions. In the event that the Firm intended to start engaging in these types of trades then this would require a material change to this Policy.

#### **3.1 Securities financing transactions**

Securities financing transactions (“SFTs”) are defined as being any one of the following types of transactions:

- (a) a repurchase transaction, as defined in article 3(9) of the SFTR<sup>11</sup>;
- (b) securities or commodities lending and securities or commodities borrowing as defined in article 3(7) of the SFTR;
- (c) a buy-sell back transaction or sell-buy back transaction as defined in article 3(8) of the SFTR; and
- (d) a margin lending transaction as defined in article 3(10) of the SFTR.

The instruments that are the subject of these transactions are likely to be MiFID II financial instruments that fall into one of the above categories. However, due to the particular features of these transactions it is likely that special execution arrangements will be employed that will differ from normal transactions. In addition, these transactions need to be separately disclosed in any RTS 28 disclosures and furthermore are subject to special treatment in relation to transaction reporting. As a result, the Firm should be aware of which transactions are classified as SFTs and be able to track these separately from other transactions.

Detailed consideration of the rules around SFTs are outside the scope of this Policy, which is only concerned with their treatment from a best execution perspective.

The Firm does not engage in any such transactions therefore these are outside the scope of this Policy. In the event that the Firm intended to start engaging in these types of trades then this would require a material change to this Policy.

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<sup>11</sup> The “Securities Financing Transactions Regulation”, which is Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015.

## **4 Governance and senior management oversight**

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### **4.1 The Board**

Senior management oversight of the Best Execution Policy, the underlying trading arrangements in place to provide best execution to its clients, and the first and second line monitoring undertaken to demonstrate best execution is provided by the Board.

The Board is responsible for ensuring our internal policies and procedures deliver best execution, annually reviewing and if necessary updating our Best Execution Policy, monitoring the effectiveness execution venues and seeking to identify trends in execution quality or potential deficiencies in our processes to deliver continual improvement in the execution quality obtained for our clients.

This Board meets quarterly and is minuted, with actions arising being documented. All changes are fed back into and discussed as necessary with the front office and compliance.

### **4.2 Use of information from Consolidated Tape Providers**

The Firm is aware of the requirement to use the data published by any consolidated tape providers established under Article 65 of MiFID II. Since at the time of finalising this policy no such Consolidated Tape Providers existed and no relevant data had been published, no detailed procedures exist at this time for the use and analysis of this data. The Board will be responsible for reviewing and augmenting the Best Execution Policy to determine how this information can be efficiently used by the business once it becomes available.

### **4.3 Review and oversight of Best Execution Policy**

The Board will review and approve any necessary changes to this Policy. This review will take place at least annually

## **5 Client communications and disclosures**

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### **5.1 Disclosure of appropriate information to clients**

It is an FCA requirement<sup>12</sup> that Firms provide clients with 'appropriate information' on their Order Execution Policy ("OEP"), which explains how orders will be executed clearly, in sufficient detail and in a way that can be easily understood by clients. It is not necessarily a requirement that the OEP itself be provided to clients, and depending on how the OEP is written, it may not be sufficient to just provide the OEP to clients in order to meet the disclosure requirements. This might be the case, for example, if the OEP was written in such a way that it could not be easily understood by clients.

### **5.2 Client consent to the Firm's execution policy**

Where firms provide direct execution on behalf of clients, it is a requirement to obtain the client's consent to the firm's execution policy prior to commencing this business.

Since the Firm does directly execute trades in some situations, it is therefore required to obtain the client's consent.

It is the Firm's policy to obtain explicit written consent from all direct investors to its execution policy.

### **5.3 Client consent to executing outside a Trading Venue**

Where the Firm proposes to directly execute trades outside a Trading Venue<sup>13</sup>, the Firm is also required to obtain a client's prior express consent. In this case, implicit consent to the Firm's execution policy in its entirety is not sufficient and explicit, written consent is required to execute the client's orders outside of a Trading Venue. This consent can be obtained either electronically or by way of a physical signature.

### **5.4 Notification of material changes**

As noted above, the Firm will review this Policy at least annually, making updates where necessary. This review will be performed by the Board. Any material changes that are made to the Policy as a result of these reviews will be notified to clients. Where changes are made, the Board will also consider, as part of their review, whether the changes are material enough to require such notification.

Examples of material changes are likely to be the Firm starting to trade a new type of instrument that requires new and different execution arrangements to be put in place, or substantial changes to the Firm's existing execution arrangements. Since the Firm currently mainly transmits orders to custodian banks for execution, if the Firm proposed

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<sup>12</sup> COBS 11.2A.22R for MiFID business, COBS 11.2.23A for AIFMD business and COBS 11.2B.31 for UCITS business

<sup>13</sup> A Trading Venue is defined as a Regulated Market, MTF or OTF. Note that since these are all European regulatory concepts, it is likely that orders executed outside of the EEA would be considered 'outside of a Trading Venue' even if the Execution Venue itself was similar in nature to an EEA Trading Venue. An example of this would be the national stock exchange of a non-EEA country.

to start executing orders directly this would be considered a material change and require notification to clients.

## **5.5 Specific client instructions**

If the Firm receives an order from a client that includes specific instructions in relation to the handling and execution of the order (such as requesting a particular execution venue, specifying a particular price or time or requesting the use of a particular strategy) then, subject to our legal and regulatory obligations, the Firm will execute the client's order in accordance with these specific instructions. This means that to the extent of the specific instructions, the Firm's obligation of best execution will be satisfied by executing the order in accordance with the specific instructions. **This is the case where we use the clients appointed custodian bank.**

## **5.6 Disclosure of inducements, conflicts and fees**

The Firm is required to maintain a Conflicts of Interest Policy identifying the circumstances that constitute or may cause a conflict of interest with potential material risk or damage to the interests of one or more of its clients. The Conflicts of Interest Policy in place outlines the procedure that the Firm will follow to manage such conflicts. This requirement applies to potential conflicts of interest that may arise between the Firm and its clients as a result of its execution arrangements which could prevent it from satisfying its best execution obligations. The Firm handles all potential conflicts of interest that can arise in the execution of a client order/transaction according to its Conflicts of Interest Policy. Further information can be obtained from the Compliance Officer.

The Firm is not permitted to receive any benefit for routing client orders to a particular trading or execution venue as this could be considered an inducement and conflict of interest. Payment for order flow is also therefore prohibited and the Firm does not engage in this practice.

## **5.7 Disclosure top 5 execution venues and custodians (RTS 28)**

Where a firm executes trades for clients, it is required under RTS 28<sup>14</sup> to make an annual disclosure of the top five execution venues where orders were executed, broken down for each class of financial instrument traded. Where firms also execute trades indirectly by transmitting orders to custodians, an equivalent disclosure of the top 5 custodians is also required under COBS 11.2A.34 EU (6). Where both direct and indirect execution takes place, these reports must be made separately.

Appendix 2 provides a breakdown of which instruments are executed in which way, and therefore which RTS 28 disclosure they will need to be disclosed in.]

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<sup>14</sup> As reproduced in COBS 11 Annex 1 EU.

## **5.8 RTS 28 – Information to be disclosed**

This information should be broken down by class of financial instrument, as set out in Appendix 2 of this Policy and defined in Annex 1 of RTS 28. The format of the disclosure should be made in line with Annex II of RTS 28, and must be made separately for retail clients, professional clients, and in relation to securities financing transactions (Tables 1, 2 and 3 respectively), if any such transactions took place.

RTS 28 in its entirety, along with all of the Annexes and Tables referred to above is reproduced in COBS 11 Annex 1 EU.

It should be noted that the data only needs to be provided where trading has taken place in relation to the financial instrument in question. In addition, where the Firm has executed less than one trade on average per business day during the year in the financial instrument in question, it is sufficient to state this fact rather than providing a breakdown of execution venues.

In relation to portfolio management business and the reception and transmission of orders, ESMA have clarified that the concept passive orders and aggressive orders is not generally relevant, unless specific instructions have been attached to the order that suggest otherwise. This field can therefore be omitted in this context.

The Compliance Officer is responsible for ensuring that the investment team have systems and processes in place to retain all relevant data to enable these disclosures to be made as required on an annual basis.

## **5.9 RTS 28 – Qualitative disclosure of execution quality**

In addition, the reports referred to above should be accompanied by information on the execution quality obtained. This will take the form of a summary of the analysis conducted by the Firm and the conclusions drawn from its regular monitoring of execution quality and should include at a minimum:

- An explanation of the relative importance the Firm gave to each of the execution factors in selecting an execution venue or custodian. Where appropriate, this should be broken down by class of financial instrument.
- A description of any close links, conflicts of interest or shared ownership with any execution venue or custodian used.
- A description of any specific arrangements regarding payments, rebates, discounts or non-monetary benefits given to or received from any execution venue or custodian used.
- Where the Firm's list of approved execution venues or custodians changed, an explanation of the factors that led to such a change.
- Where relevant, an explanation of how order execution differed according to client categorisation (i.e. between retail and professional clients)
- Where relevant, an explanation of how and why any other execution factors were given precedence over cost and price in relation to retail clients and how this improved the outcome for the client in terms of total financial consideration]
- An explanation of how the Firm used any data published by execution venues under RTS 27 or custodians under RTS 28.
- Where applicable, an explanation of how the Firm used the output of a consolidated tape provider

The Compliance Officer is responsible for drafting these reports. They will then be provided to the Board for approval and sign-off, along-side other monitoring of execution quality performed by the Firm to ensure that they are consistent.

These reports will be prepared on an annual basis, covering the calendar year (i.e. 1 January to the 31 December). The first report due will be the one covering 2017, although since this period covers the calendar year prior to the one when MiFID II (and this Policy) came into force, it is recognised that some of the required information may not be present.

These reports will be published no later than 4 months after the end of each calendar year (i.e. no later than 30 April). The reports will be hosted on the Firm's website, in machine readable format (i.e. not as a graphic) and will not have any access restrictions. The Firm will ensure that each report stays on the Firm's website for at least 2 years after it is first published.

It is the responsibility of the Compliance Officer to ensure that these reports are published on a timely basis, comply with the relevant requirements and remain accessible on the Firm's website for the minimum period of 2 years.

#### **5.10 Demonstrating best execution to clients and the FCA**

The Firm is obliged by FCA rules<sup>15</sup> to be able to demonstrate to clients, on request, that all trades have been executed in accordance with this Policy.

In relation to MiFID business only there is a further new requirement<sup>16</sup> that the Firm must be able to demonstrate to the FCA, upon request, that best execution has been achieved. This requirement goes beyond just demonstration that the execution policy has been adhered to.

The Firm considers that this Policy, along with the detailed monitoring of execution quality undertaken and the reports escalated to and ratified by the Board, along with the RTS 28 reports (qualitative and quantitative) published annually, are sufficient to demonstrate the Firm's adherence to this Policy and to demonstrate more widely that the Firm has taken all sufficient steps to provide best execution to its clients and that this has been delivered on a consistent basis.

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<sup>15</sup> COBS 11.2A.32 for MiFID business, COBS 11.2B.23 for UCITS business and COBS 11.2.29 for AIFM business

<sup>16</sup> COBS 11.2A.32

## Appendix 1 – Financial Instruments as per Annex 1 Section C of MiFID II

- (1) Transferable securities;
- (2) Money-market instruments;
- (3) Units in collective investment undertakings;
- (4) Options, futures, swaps, forward rate agreements<sup>17</sup> and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances<sup>18</sup> or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
- (5) Options, futures, swaps, forwards and any other derivative contracts relating to commodities<sup>19</sup> that must be settled in cash or may be settled in cash at the option of one of the parties (other than by reason of a default or other termination event);
- (6) Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market, a MTF, or an OTF, except for wholesale energy products traded on an OTF that must be physically settled;
- (7) Options, futures, swaps, forwards<sup>26</sup> and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 of this Section and not being for commercial purposes, which have the characteristics of other derivative financial instruments;
- (8) Derivative instruments for the transfer of credit risk;
- (9) Financial contracts for difference;
- (10) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF, or an MTF;
- (11) Emission allowances consisting of any units recognised for compliance with the requirements of Directive 2003/87/EC (Emissions Trading Scheme).

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<sup>17</sup> Yellow highlighted text denotes that the underlying definition has changed. New guidance under MiFID II clarifies and amends the distinction between a spot agreement and a forward agreement, overriding national discretion on this point and the FCA's previous interpretation. This clarifies the settlement periods that are considered as spot/forward contracts and also removes the carve out for transactions carried out for a "commercial purpose" as opposed to an investment purpose. This particularly applies to FX forwards and results in most FX forward contracts now being considered MiFID financial instruments.

<sup>18</sup> Blue underlined text is new in MiFID II. These references mainly relate to emissions allowances and instruments traded on OTFs, as well as a new carve-out for wholesale energy products which are regulated under REMIT.

<sup>19</sup> The underlying definition of Commodities has also changed under MiFID II, resulting in a wider definition of both commodities and also commodity derivatives. The MiFID II definition goes not require that these be goods that can be physically delivered, and now explicitly includes things such as climatic variables, freight rates, inflation rates and other official economic statistics.



<b>Appendix 2 – Classes of Financial Instrument as per Annex 1 of RTS 28 (based on 2017 data)</b>	<b>DIRECT EXECUTION:</b> Firm executes trades in this instrument directly	<b>INDIRECT EXECUTION:</b> Firm transmits orders in this instrument to custodians to execute	<b>NOT APPLICABLE:</b> Firm does not trade in this instrument
<b>(a) Equities – Shares &amp; Depositary Receipts</b>			
(i) Tick size liquidity bands 5 and 6 (from 2000 trades per day)			X
(ii) Tick size liquidity bands 3 and 4 (from 80 to 1999 trades per day)			X
(iii) Tick size liquidity band 1 and 2 (from 0 to 79 trades per day)		X	
<b>(b) Debt instruments</b>			
(i) Bonds		X	
(ii) Money markets instruments		X	
<b>(c) Interest rates derivatives</b>			
(i) Futures and options admitted to trading on a trading venue			X
(ii) Swaps, forwards, and other interest rates derivatives			X
<b>(d) credit derivatives</b>			
(i) Futures and options admitted to trading on a trading venue			X
(ii) Other credit derivatives			X
<b>(e) currency derivatives</b>			
(i) Futures and options admitted to trading on a trading venue			X
(ii) Swaps, forwards, and other currency derivatives			X
<b>(f) Structured finance instruments</b>			X

<b>(g) Equity Derivatives</b>			
(i) Options and Futures admitted to trading on a trading venue		X	
(ii) Swaps and other equity derivatives			X
<b>(h) Securitized Derivatives</b>			
(i) Warrants and Certificate Derivatives			X
(ii) Other securitized derivatives	X		
<b>(i) Commodities derivatives and emission allowances Derivatives</b>			
(i) Options and Futures admitted to trading on a trading venue			X
(ii) Other commodities derivatives and emission allowances derivatives			X
<b>(j) Contracts for difference</b>			X
<b>(k) Exchange traded products (Exchange traded funds, exchange traded notes and exchange traded commodities)</b>		X	
<b>(l) Emission allowances</b>			X
<b>(m) Other MiFID II instruments:</b>			
(i) units in unlisted investment funds		X	
<b>(n) Other instruments outside the scope of MiFID II:</b>			
(i) Funds		X	

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<b>Appendix 3 – List of Execution Venues and Custodians on which significant reliance is placed (based on 2017 data)</b>	<b>EXECUTION VENUES:</b>	<b>Depository:</b>
<b>(a) Equities</b>		
		Bank Julius Bär & Co. AG
		DB Nominees (Singapore)
<b>b) Debt</b>		
		JP Morgan
		UBS Zurich
<b>(g) Equity Derivatives</b>		
		DB Nominees
<b>(h) Securitized Derivatives</b>	COMMERZANK	
	SOCIETE GENERALE	
<b>(k) Exchange Traded Products</b>		
		UBS Switzerland AG
		Bank Julius Bär & Co. AG
<b>(m) Other MiFID II instruments:</b>		
		UBS Switzerland AG
		JP Morgan

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