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Information on our MiFID order handling & execution policy

Product general procedure: exchange-traded derivatives



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For information about our investment bank entities, visit www.ubs.com/ibterms

Product general procedure: exchange-traded derivatives

This is a supplement to the information on our MiFID order handling & execution policy.

1 Purpose

- (a) This general procedure document provides information on when, where and how best execution is delivered by UBS investment bank entities in the UK or EEA¹ (**UBS**), under UK MiFID and EU MiFID (**MiFID**), when handling or executing exchange-traded derivative transactions for Professional Clients² (**Clients**).
- (b) This document is a supplement to our information on our MiFID order handling & execution policy (**Policy Information**) available at: <http://www.ubs.com/ibterms>.
- (c) Capitalised terms not defined in this document shall have the same meaning as in the Policy Information document.

2 Scope & Application of Best Execution to UBS ETD services

- (a) The UBS ETD business provides a range of methods of execution to Clients. These are broadly split into two distinct categories:
 - (i) Worked Orders, representing sales trading and voice execution services;
 - (ii) Direct Market Access, representing electronic trading solutions wherein the Client executes directly in the market via UBS's infrastructure.
- (b) In the context of these services (**ETD services**), there will be a number of instances where the UBS ETD Desk will be executing Orders on behalf of our Clients where such Clients may be legitimately relying upon us to look after their interests. In such circumstances, the delivery of those services will be subject to the best execution requirements set out by the UK and German regulators, reflecting the provisions of the MiFID (**Best Execution**). Where relevant, Orders will also be executed in line with any instructions and constraints placed on the Order by the Client.
- (c) In other situations, where a presumption exists that there is no legitimate reliance, such as a request for a UBS price or sponsored access arrangement, we have confirmed through a detailed review of our flows³ that although UBS will always seek to provide competitive prices, those services will not be subject to Best Execution requirements.
- (d) The scope of applicability of the Best Execution requirements is kept under regular review and will be revised as necessary.
- (e) The following sections of this document explain when Best Execution requirements apply in the context of ETD services and where they do apply, how UBS satisfies those requirements.

¹ Information on legal entities comprising UBS investment bank entities in the UK and EEA can be found on our website at www.ubs.com/ibterms.

² UBS does not deal directly with Retail Clients and dealings with Eligible Counterparties are not subject to regulatory best execution and order handling requirements.

³ This has included consideration of the Financial Conduct Authority's rules, thematic review and relevant EU guidance. This guidance included consideration of the four factors suggested by the EU Commission to help firms determine whether Clients were legitimately relying on them: 1) whether the firm or client instigates the transaction; 2) market practice – specifically whether there is market convention for clients to shop around; 3) the relative levels of transparency within a market; and 4) information provided to clients by UBS about its services and any terms of agreement.

3 Application

(a) Worked Orders:

- (i) In scope: Best execution will apply:
 - (A) when UBS accepts an instruction to “work” an Order on their behalf, (received through either voice or electronic channels);
 - (B) where Orders are given with instructions to target a specific benchmark - for example requesting the VWAP benchmark over a defined period - within the constraints placed on the Order by the Client.
 - (C) where a Client asks for a “block price” in a situation where the Client relies solely on UBS to execute it on their behalf;
 - (D) any electronically submitted Order to UBS where the Client relies solely on UBS to execute it on their behalf;
 - (E) Orders with an instruction to execute it using an execution algorithm.
- (ii) Out of scope: Best Execution requirements will not apply when a Client asks for a “UBS Principal Price” and these include instances where a Client contacts UBS looking for UBS to commit capital for a trade and provide UBS's best price. The Client can then choose whether they wish to execute at the price provided by UBS.

(b) Direct Market Access:

- (i) **In scope:** Best execution will apply to Orders sent via Direct Market Access (**DMA**) where the primary factor is speed
- (ii) **Out of scope:** Best execution will not apply to:
 - (A) Electronic request for Quote Services for “UBS Principal Price”; and
 - (B) Sponsored Access, a DMA solution in which a customer connects directly into an exchange without passing through UBS infrastructure.

4 Implementation of Best Execution and Order Handling requirements to In-Scope ETD Services

(a) Order Receipt and Capture:

(i) Worked Order Capture:

- (A) Orders are received from Clients via a number of different routes (including phone, electronic STP, and IB chat/message).
- (B) Orders received via electronic STP routes (e.g. FIX) will automatically populate the relevant order management systems (**OMS**). Orders received via non-STP routes (phone, chat) will be input manually by the sales trader into the OMS. Worked Orders are not deemed to have been accepted until explicitly acknowledged as such by the relevant UBS sales trader.

- (ii) Direct Market Access Order Capture: Orders are received via electronic STP routes (e.g. FIX) and will automatically be routed to the relevant market.

5 Order Handling

(a) Execution Factors and Execution Criteria:

- (i) The Execution Factors for any Order to which best execution requirements apply are price, cost, speed, likelihood of execution and settlement, size, nature and any other consideration relevant to the execution of an Order. Orders might potentially be subject to all Execution Factors, but the relative importance of each factor is determined by the Execution Criteria, which include the following contributing elements:
 - (A) Order typology;
 - (B) The specific Client instruction on the Order;
 - (C) The liquidity profile of the instrument(s);
 - (D) The size of the Order;
 - (E) General market environment and prevailing market conditions;
 - (F) Sales trader knowledge of the Clients' Order-handling preferences; and
 - (G) The Execution Venues to which the Order can be directed.
 - (ii) The primary Execution Factor for the purposes of discharging the best execution obligation will usually be price. However, the sales trader will consider all key Execution Factors in light of the Execution Criteria, assessing their relative weighting of the factors that could influence the outcome of the execution. The assessment of these considerations will determine the appropriate interaction with the market.
 - (iii) For example, where a Client is wishing to execute an Order which is very large in size, potentially many days volume and/or in an illiquid option, the approach may be to de-prioritise speed as an Execution Factor and interact more passively with the market. This is because liquidity on some markets may not be sufficient to complete the Order quickly without having an unacceptable cost and price impact to the detriment of the Client's interests. As such price and cost remain the primary Execution Factors.
- (b) **Specific Client Instructions:**
- (i) Where the Client provides specific instructions with respect to the execution of an Order it will be executed in accordance with those instructions. To the extent that UBS follows those instructions, UBS will have satisfied any Best Execution requirements with respect to that aspect of the Order. The remaining elements of the Order not covered by the Client's specific instructions will remain subject to Best Execution requirements and will be determined by UBS according to the Execution Factors and Execution Criteria discussed in the section above.
 - (ii) Instructions may be given on an order-by-order basis and recorded in the OMS, e.g. including limits, contingencies, benchmarks, venue selection, At-Best and advanced order types.
 - (iii) "At Best" Orders require the broker to exercise their judgment when executing the Order in order to achieve the best result for the Client in the circumstances.
 - (iv) Many exchanges offer advanced order types such as stops, stop limits, contingent orders, iceberg and other instructions to be entered directly into the exchange. Clients should be aware that in the context of such native exchange order types, once entered, they will be executed in the manner prescribed by that exchange without UBS' ability to influence the execution further.
 - (v) UBS will accommodate all trading instructions to the extent possible. Any parameters or instructions given to UBS by the Client should be clear and specific: for example a Client may ask for the trade to be worked over a set time period i.e. the next 5 minutes.
 - (vi) Client instructions (or amendments thereto) will only be effective if and when explicitly acknowledged by UBS. Clients are solely responsible for informing UBS of any instructions, preferences or changes thereto.
- (c) **Block Trading & call-around-market:**
- (i) Exchange traded derivatives are generally specific to a particular exchange. However some exchanges permit the execution of an Order to be agreed outside of the central order book (**COB**) on condition that certain parameters are met, e.g. minimum block thresholds (block size limits and price range). In many such instances, an active "call-around-market" aside the COB has emerged. For the purpose of Best Execution, such a call-around-market is considered an own execution venue.
 - (ii) Where an order meets the relevant exchange and product block trading threshold, a client may elect to execute a block trade (either on a trade by trade basis or as a standing instruction). This is a bi-laterally negotiated agreement that occurs outside of the COB, the details of which are then posted to the exchange for registration and clearing purposes. If a client wishes to trade on a bilateral basis with UBS they may request a block quote from UBS which will be a house principal risk price (best execution will not apply); alternatively the client may ask UBS to act as its executing agent in sourcing an aggregate quote from competing market makers. In the latter case, the quote will be an aggregate of competing quotes from appropriate liquidity providers (which may include the UBS principal price) identified by UBS with a view to achieving the best price for the client.
 - (iii) Where no specific instruction is given, UBS traders will exercise their judgment in light of the relevant Execution Factors and Execution Criteria to secure the best result for the Client. This may entail, for example, choosing to execute the Order on the COB or on the call around market.
 - (iv) Another example could be where a Client wishes to buy 1000 UBS calls and the COB shows only 50 lots on the offer the UBS sales trader may decide to look for alternative liquidity to get the full order size executed. Equally, the decision to execute on the call around market can be driven by other execution principles such as price, likelihood of execution and speed, depending on the relevant Execution Criteria.
- (d) **Third Party Brokers/Connected Parties:**
- (i) UBS uses direct connections for all developed markets, but in certain markets UBS may engage the services of local Third Party Brokers to assist in handling and executing Client Orders. UBS may also engage the services of third parties to assist in handling and executing Client Orders in order to meet business continuity requirements. Where brokers operate in markets outside of UK regulations or EU regulations, other local rules and regulations may apply as part of the execution process.
 - (ii) The performance of our third party brokers is regularly reviewed to ensure that the execution quality is in line with our requirements to deliver Best Execution to our clients.
 - (iii) Where an Order is received by UBS for execution in a non-UK market or non-EU market, UBS may use a Connected Party to execute the Order.

- (iv) All Orders executed through Third Parties and Connected Parties which are in scope of Best Execution are subject to post trade monitoring.
- (e) **Smart Order Routing (US Equity Options only):**
 - (i) Exchange traded derivatives are generally specific to a particular exchange, only US Equity Options are listed on multiple exchanges and cleared on a single clearing house (Options Clearing Corporation).
 - (ii) Within ETD execution systems we do not employ automated venue-level routing decisions with the exception of the US Equity Options' markets where a Smart Order Router is used.
 - (iii) For US Equity Options, where accessing markets electronically, UBS's routing decisions, including those processed within our algorithms, are predominantly made by the UBS Smart Order Router (**SOR**).
 - (iv) The decision as to which Execution Venues and price points to target will be taken based upon both the explicit instructions accompanying the relevant Order and/or the SOR's programmed "judgment". The primary objective of the SOR is to achieve the best possible outcome for our Clients. UBS's interactions with Execution Venues are guided by objectively observed and calculated parameters.

6 Monitoring

- (a) **Real Time Monitoring:**
 - (i) For worked orders, the UBS sales trading and electronic trading desks are responsible for the real time monitoring of the Orders.
 - (ii) Orders from all businesses that are executed via UBS algorithms will also be subject to monitoring by the ETD Electronic Trading Desk. UBS's Electronic Trading desk has full visibility of all UBS algorithm Orders, on both a real-time and historical basis.
 - (iii) In the algorithm engines, checks and controls are applied to the execution of all Orders' typologies and include fail-safes, alerts and limits throughout the execution infrastructure, which are designed to ensure that UBS is interacting with the market in a manner appropriate for the execution of the Order in question. Parent and market orders that deviate from prescribed limits are reviewed before they are sent for execution.
- (b) **Post Trade Monitoring:** All Orders to which Best Execution obligations apply are subject to post-trade monitoring. This monitoring involves monthly best execution reviews on a defined set of sample and exception transactions.
 - (i) The sample includes execution over different product areas and both UBS and 3rd party execution. All executions within the selected sample are reviewed and any that are deemed not to have met best execution are highlighted and investigated.
 - (ii) Exception monitoring comprises of Transactional Cost Analysis reports, where defined outliers versus different benchmarks are highlighted and investigated.

7 Client Communication

- (a) If a Client is connected electronically they can elect to receive automated real-time execution updates; if the Client is not connected electronically, the relevant sales trader may provide manual updates (for example, via IB chat/message or voice).

8 Order Amendments

- (a) The Client and/or sales trader can, subject to acceptance by UBS and the exchange, amend instructions (e.g. such as limit, benchmark, participation rate and algorithm) throughout

the life of the Order prior to execution. Amendments are captured in the OMS and stored.

9 Fees

- (a) Commission rates are agreed through negotiation between UBS and the Client. They can be set at default or negotiated on a per-trade basis. UBS is able to offer flexibility on commission structures by market, flow, fund and other bases, as well as a 'Cost+' model.

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