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[www.ubs.com/ibterms](http://www.ubs.com/ibterms)

# Information on our MiFID order handling & execution policy

Product general procedure – foreign exchange



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For information about our investment bank entities, visit [www.ubs.com/ibterms](http://www.ubs.com/ibterms)

# Product general procedure – foreign exchange

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

## 1 Purpose

- (a) This document explains where, when and how Best Execution is addressed by UBS investment bank entities in the UK or EEA<sup>1</sup> when handling or executing Foreign Exchange transactions for Professional Clients<sup>2</sup> (**FX services**). **Foreign Ex- change** and **FX** here includes the exchange of both currencies and precious metals.
- (b) This document supplements 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 MiFID Best Execution in UBS FX

- (a) UBS has undertaken a detailed analysis of the application of Best Execution obligations to the FX services, in line with the relevant regulatory requirements under UK MiFID II and EU MiFID (**MiFID**) (**Best Execution**). The result of UBS's analysis is that the majority of FX services offered by UBS are not be subject to formal regulatory Best Execution requirements, although UBS will always seek to provide competitive prices.
- (b) We have, however, identified that when taking Orders in non-spot FX instruments from Professional Clients (**Clients**) within the UK or EEA it is likely that the execution of such Orders is subject to Best Execution requirements. In these areas UBS is enhancing its processes to ensure it is able to deliver a service that fully satisfies the Best Execution requirements as set out in MiFID.
- (c) The key considerations we have taken into account with respect to identifying whether formal regulatory Best Execution requirements apply in relation to FX services can be summarised as:
  - (i) Is the transaction a deliverable Spot contract?
  - (ii) Is the relevant activity occurring within the UK or EEA?
  - (iii) Are Clients placing legitimate reliance on UBS?

## 3 Is the transaction a deliverable Spot contract?

- (a) Deliverable Spot contracts are not Financial Instruments within the scope of MiFID and therefore Best Execution requirements will not apply to stand-alone spot FX transactions<sup>3</sup>. Other FX contracts, for example deliverable and non-deliverable FX forwards, swaps and options, are MiFID financial instruments and thus potentially within the scope of the Best Execution requirements.

## 4 Is relevant activity occurring within the UK or EEA?

- (a) The regulatory Best Execution requirements are derived from MiFID and as such apply to only to relevant activities conducted within the UK or EEA<sup>4</sup>.

- (b) UBS considers that Client transactions falling within any of the following scenarios may result in UBS conducting relevant activity in the UK or EEA and thus potentially falling within scope of Best Execution requirements, subject to considerations of legitimate reliance addressed in the section immediately below.
  - (i) Orders placed directly with a salesperson or trader located in the UK or EEA; and
  - (ii) Orders received by UBS in non-UK or non-EEA locations but where the Order is in fact executed by a trader in an UK or EEA branch of the same UBS legal entity that received the Order<sup>5</sup>.

## 5 Is the client legitimately relying upon UBS to look after their interests with respect to the transaction?

- (a) In the event that such activity concerns a MiFID financial instrument (i.e. non-spot transactions) and is undertaken by UBS in the UK or EEA it is potentially in scope for Best Execution. The subsequent consideration is then whether or not UBS is acting on behalf of the Client when executing their Orders. In line with regulatory guidance at the UK and national and EU level, a firm will be executing transactions on behalf of a Client in circumstances where the Client may legitimately rely on the firm to protect their interests in relation to pricing and other elements of the transaction that may be affected by the choices made by the firm when executing the Order.
- (b) The European Commission (**EC**) provided guidance on determining the presence of legitimate reliance in the Working Document ESC-07-2007. UBS's assessment took into account all relevant guidance (including consideration of the four recommended factors<sup>6</sup>) as a means to help determine whether legitimate reliance would be placed on UBS in the context of the services offered by UBS.
- (c) Where the results of UBS's review determined that Clients should not legitimately be placing reliance on UBS, the following points were central to those conclusions:
  - (i) FX services predominantly operate on a request-for-quote (**RFQ**) basis where UBS provides its prices to Clients in situations where there is no legitimate reliance for the reasons set out immediately below.
  - (ii) In general the FX market is liquid and transparent and there is a widespread practice of Clients forming their own view of market pricing and "shopping around". This includes clients executing FX position rolls and "roll-to-forward" transactions.
- (d) UBS's review identified that the main types of FX transaction where Best Execution requirements may apply are Orders from Professional Clients placed for any non-spot FX product: i.e. non-deliverable and deliverable forwards, swaps, options and futures. The types of Order in question include
  - (i) **resting Orders**: stop loss, take profit and other limit orders

<sup>1</sup> 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](http://www.ubs.com/ibterms).

<sup>2</sup> UBS does not deal directly with Retail Clients and dealings with Eligible Counterparties are not subject to regulatory Best Execution and order handling requirements.

<sup>3</sup> FX spot transactions may be subject to Best Execution requirements indirectly where they form an embedded part of an instrument which is in scope for Best Execution (e.g. FX forward).

<sup>4</sup> The EEA does not include Switzerland.

<sup>5</sup> For example, a Client places an Order with UBS AG, Hong Kong branch but where the Order is executed by a UBS AG London branch trader.

<sup>6</sup> The four factors the EU Commission suggested may help firms determine whether clients were legitimately relying on them are 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.

- (ii) **immediate Orders:** at best, at worst orders
- (iii) **algo Orders** (where available).
- (e) For the avoidance of doubt, however, UBS has determined that Clients should not be placing legitimate reliance upon UBS when executing the following types of Order:
  - (i) Call-backs, where the Client indicates their interest to trade with UBS at or near a certain price; if UBS subsequently is prepared to trade at or near that price UBS will call the Client back and quote the price at which UBS is willing to trade. The decision to proceed or not with that trade at the UBS price offered will be with the Client;
  - (ii) Fixed Price Orders, where the Client places a firm Order with UBS to trade at a fixed price. Clients should be clear that their Order will be executed at that price and they should therefore have no expectation of any price improvement or slippage from the price specified in their Order.
  - (iii) Fixing or Benchmark Orders, where UBS fills the Order at the externally published fixing or benchmark price (plus a spread or fee, if applicable).
- (f) The scope of applicability of the Best Execution requirements is kept under regular review and will be revised as necessary.

## 6 Where does UBS provide Best Execution in FX services?

- (a) As a leading global provider of FX services, UBS seeks to provide a highly competitive service to Clients in all locations and across all FX products.
- (b) The guidance sets out a number of requirements that must be met in order to deliver Best Execution to the required standards. In summary, these requirements involve having both (a) execution processes designed to achieve the best outcomes for Clients, and (b) management processes to monitor in-scope transactions to ensure the execution processes are achieving Best Execution on a consistent basis.
- (c) UBS's procedures with respect to address Best Execution requirements, both for electronic and manual execution, are described in more detail below.

## 7 Electronically executed FX transactions

- (a) Clients predominantly execute FX transactions with UBS electronically and a Best Execution service is available for:
  - (i) all Clients, worldwide, executing FX electronically with UBS; and
  - (ii) Spot FX transactions<sup>7</sup>, as well as for FX forwards, non-deliverable forwards (**NDFs**) and swaps.
- (b) UBS Best Execution price streams are available for trades executed electronically over the following channels:
  - (i) UBS Neo;
  - (ii) FX Trader Plus;
  - (iii) FIX API.

## 8 Order Execution

- (a) Currently, UBS FX is the sole Execution Venue for executing Best Execution-compliant transactions in FX products. For electronic execution, liquidity is delivered via continuous price streams which are regularly benchmarked against external and internal reference prices to ensure that the best prices are available on a consistent basis.

- (b) The principal Execution Factors that the FX Best Execution pricing streams aim to optimise are:
  - (i) Core price (the price exclusive of any transaction costs);
  - (ii) Certainty of execution (i.e. hit ratio; ensuring that an acceptable proportion of requests result in a successful execution);

within the constraints of:

- (i) Client channel (optimising factors (i) and (ii) within the technical limitations of the channel through which the Client deals).
- (c) Two way bid-offer prices are provided to the Client, where available, so that the Client has full visibility with respect to the cost of transacting before execution.
- (d) "Last look" functionality is employed on Best Execution electronic price streams to enable tighter bid-offer spreads to be achieved with sufficient certainty of execution. For more information about how UBS deploys last look and the potential benefits to Clients, please speak to your usual UBS sales or relationship contact.

## 9 Benchmarking & Monitoring

- (a) Best Execution price streams are benchmarked against external and internal reference prices to ensure that Best Execution is achieved on a consistent basis. Wherever possible, external reference prices from market venues and brokers are used to obtain the best comparison of UBS's price against externally available prices. External observed prices may be adjusted for comparison purposes to take into account known costs of executing on external venues, (for example price slippage factors according to trade size). Where the external data available is limited in scope or quality, internal data may be used as a reference, (for example executed prices of comparable trades).
  - (i) Spot prices for electronic execution are benchmarked on a tick-by-tick basis.
  - (ii) Forwards, Swaps, and NDF prices are benchmarked on a tick-by-tick basis for all available standard tenors.
  - (iii) Options prices are benchmarked on a tick-by-tick basis for all available standard tenors.
- (b) The benchmarking follows a tiered approach based on the availability of prices:
  - (i) **Tier – 1:** Firm prices are available all the time (consistent prices) and the core price is benchmarked by calculating the percentage of time it is inside or equal to the market top of book bid/offer. E.g. most Spot prices.
  - (ii) **Tier – 2:** Firm prices are not consistently available. When firm prices are available, the core price is benchmarked by calculating the percentage of time it is inside or equal to the market top of book bid/offer. E.g. most Options prices.
  - (iii) **Tier – 3:** Good indicative prices are available and the core price is benchmarked by calculating the percentage of time it is inside or equal to the market top of book bid/offer plus a suitable threshold determined by UBS to account for the indicative nature of market prices. E.g. most Forwards prices.
  - (iv) **Tier – 4:** For a handful of illiquid CCYs, no regular external prices are available. In such a scenario no benchmarking is possible and therefore likelihood of execution with respect to market conditions takes precedence over price. UBS is continuously exploring alternate, real-time market data sources to verify if re-

<sup>7</sup> Although not strictly required from a regulatory requirement as explained earlier in these Procedures, UBS nevertheless seeks to provide a Best Execution-standard process for FX spot.

liable pricing data is available for illiquid products and CCYs. E.g. illiquid NDF prices.

Unless otherwise stated, the UBS core price is the top of the book mid-price with no cost components added to it.

- (c) The results of benchmarking are reviewed by UBS management on at least a monthly basis. In the event benchmarking activities identify that pricing needs to be adjusted in any area, appropriate corrective action is taken going forward.

## 10 Transaction Costs

- (a) The total execution price for the Client includes transaction costs charged by UBS for accessing its electronic liquidity. Transaction costs are calculated as the difference between the Client execution price and the UBS core price (top of the book mid). Transaction costs can include, but not limited to: costs associated with accessing liquidity, client coverage, counterparty risk, balance sheet usage and operational factors. For their in-scope transactions, clients can see indicative transaction costs pre-trade and actual transaction costs post-trade on UBS Neo.
- (b) A summary of all execution channels where transaction costs are available is given below:

Execution Channel	TCA Available via
Neo FX	Neo FX
New FIX API (ACE)	Neo FX
Voice Sales	Voice Sales

Further details can be obtained through contacting your usual sales or relationship contact.

## 11 Orders for FX Options are restricted in all locations

- (a) Until further notice, UBS will not be accepting the following Order types in **FX options** in any location globally:
  - ⓪ **resting Orders:** stop loss, take profit and other limit Orders; or
  - ⓪ **immediate Orders:** at best, at worst Orders.
- (b) UBS continues to transact FX options with all Clients on the basis of:
  - ⓪ Request for Quotes;
  - ⓪ Call-backs; and
  - ⓪ Fixed price orders.
- (c) For the avoidance of doubt, UBS will not be providing a Best Execution Service in relation to transactions in FX options.

## 12 MiFID Best Execution on voice Orders

- (a) When Best Execution is available in the context of voice Orders placed or executed in the UK or EEA, the following approach will apply to delivering Best Execution:
- (b) **Placing a Best Execution voice Order**
  - ⓪ Voice orders may be placed by contacting a UBS salesperson, or by entering the Orders via an electronic channel (e.g., UBS Neo "Manual" orders and all FX Trader Plus Orders). In either case the execution of the Order will be performed by a member of UBS staff rather than the Order being executed automatically via an electronic trading platform (see section 7 "Electronically executed FX transactions").
  - ⓪ If the Client wishes the Order to be executed according to any specific instructions (for example to execute in small tranches over a period of time), the Client should ensure that such instructions are communicated clearly to the UBS member of staff receiving the Order, and the UBS member of staff confirms that the instructions are received and understood.

- ⓪ In order to demonstrate Best Execution on voice Orders, the UBS salesperson has to electronically capture these Orders in internal tools. In exceptional market scenarios, the UBS salesperson may communicate order fills to the Client before capturing these in internal tools.

## (c) Executing a Best Execution voice Order

- ⓪ UBS staff will seek to execute the Client's Order in accordance with any instructions that the Client may specify when placing the Order. Any Best Execution requirements will be exercised within the confines of any Client specific instruction. If for any reason the Client's instructions cannot be met, for example due to changing market conditions, UBS will contact the Client to inform them of such changes and request further instruction.
- ⓪ For example, if a Client leaves an Order to buy with a limit price of 52 or better, but the market gaps higher before the Order can be executed, UBS will only amend the limit price for the order on an updated instruction from the Client.
- ⓪ When executing the Client's Order, UBS will aim to achieve the best outcome for the Client. Normally, this will mean seeking to achieve the best price as the principal Execution Factor. Subject to any specific instructions the Client may have given UBS as to how the Order should be executed, UBS will use its professional judgement, taking account of all relevant Execution Criteria, as to how to fill the Order, e.g.:
  - (A) whether to execute the Order (limit and stop loss orders)
  - (B) whether to access third party liquidity versus UBS's own liquidity
  - (C) whether to execute in tranches over a period of time.
- ⓪ In all cases, UBS FX will be the sole Execution Venue for the execution of transactions in FX products. See section 2(c) above for an explanation of how UBS FX achieves best prices on a consistent basis.
- ⓪ **Example:** if the Client has instructed UBS to use its discretion when managing a stop loss Order and to execute the Order only if the market moves through the level, UBS may decide not to trigger the Order if it only sees one isolated trade elsewhere in the market at that level. Instead UBS will execute the Order only when in its judgement the market has clearly moved through the level, and in which case, the final price will reflect any resulting price slippage.
- ⓪ **Example:** A Client places an "at best" Order to buy a large quantity relative to market liquidity. UBS would typically seek to hedge its risk by buying small tranches where it can find the best liquidity. The objective of this approach is to reduce the market impact of the execution process, thereby enabling UBS to secure a better price for the Client than if the hedge had been executed externally in one large trade.

## 13 Benchmarking and Monitoring

- (a) All manually executed Orders received over voice and electronic channels which are subject to Best Execution are benchmarked against external or internal reference prices to ensure that Best Execution is achieved on a consistent basis.
- (b) For benchmarking, the core price of the order is compared to a time-weighted average of market prices during the execution period. Wherever possible, external reference prices from market venues and brokers are used to obtain the best comparison of UBS's price against externally available prices.

- (c) The results of benchmarking are reviewed by management on at least a monthly basis. In the event benchmarking activities identify that pricing needs to be adjusted in any area, appropriate corrective actions are taken going forward.

#### **14 Transaction Costs**

- (a) Transaction costs defined in section 10 above are also applicable to voice executed orders. The total execution price for the Client includes transaction costs charged by UBS for executing the voice Order.
- (b) Clients may request indicative Transaction Costs from UBS before they place an Order that is subject to Best Execution requirements. Clients may also request Transaction Cost Analysis (**TCA**) post-trade to monitor their actual transaction costs. This can be obtained through contacting your usual sales or relationship contact.
- (c) Where available, Clients can also see the post-trade TCA for their transactions subject to Best Execution requirements, in UBS Neo. TCA is shown for Client transactions executed via Neo, New FIX API (ACE) or Voice Sales.

# Disclaimer

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