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Information on our Hong Kong order handling & execution policy

Product general procedure – equity derivatives



Product general procedure – equity derivatives

This is a supplement to the information on our Hong Kong Order Handling & Execution Policy.

1 Purpose

- (a) This document supplements our information on our Hong Kong order handling & execution policy (**Policy Information**) available at <https://www.ubs.com/global/en/investment-bank/regulatory-directory/equities-bestexecution-hk.html>
- (b) Capitalised terms not defined in this document shall have the same meaning as in the Policy Information document.

2 Scope

- (a) The UBS Global Equity Derivatives (**GED**) business offers a range of financial instruments to Clients which includes:
 - (i) OTC derivatives;
 - (ii) industrialised and complex structured products (including any unwind or secondary market activity);
 - (iii) commodity derivatives;
 - (iv) convertible bonds; and
 - (v) bespoke corporate derivatives.
- (b) In the context of offering services and entering into transactions with Clients in these products, we have considered all GED flows with a view to identifying those situations where Clients may be legitimately placing reliance on UBS to look after their interests and thus where regulatory best execution requirements apply. We have determined that, in the context of GED business, characterised as it is by negotiation with sophisticated counterparties who have good market visibility and often alternative trading options available to them, although UBS will always strive to provide competitive prices, there are few instances where Clients should be deemed to be placing legitimate reliance on UBS and therefore regulatory best execution requirements are of limited applicability.
- (c) We have, however, identified some instances where our Clients may legitimately rely on UBS to look after their interests. In such circumstances, the delivery of those services will be subject to the best execution guidelines (**Best Execution**) set out by the Securities and Futures Commission (SFC)¹.
- (d) We have determined that, in the context of the GED detailed above, Best Execution requirements will apply in the following situations:
 - (i) GED executes an Order on behalf of a Client in listed options,
 - (ii) In the context of a negotiated transaction, one or more elements of the price are subsequently determined by the price of the hedge obtained by UBS.
- (e) When the execution of a hedge to a GED product is undertaken by UBS's Cash and/or Exchange Traded Derivatives (**ETD**) desks, clients should refer to the respective Product General Procedures for those areas which will demonstrate how they address Best Execution requirements. Links to both documents can be found at: <https://www.ubs.com/global/en/investment-bank/regulatory-directory/equities-bestexecution-hk.html>
- (f) What follows is a description of the way in which GED addresses its Best Execution obligations in the two

situations described above.

3 Orders for listed options

- (a) Where we take Orders from Clients in listed options, the execution of these Orders is handled by GED sales traders through our ETD desk's infrastructure. For information on how UBS approaches delivery of Best Execution to Clients in this context, please refer to the ETD Product General Procedures.
- (b) Where a client asks UBS for a risk price, this is a UBS price and will not be subject to Best Execution requirements.

4 Transactions where the derivative price is at least partially determined by execution of the UBS hedge

- (a) In certain situations, usually in the context of options sold together with a delta hedge, UBS will agree to transact with a Client where only some of the instrument inputs are known at the point the transaction is agreed. Specifically, the final price paid by the Client is determined subsequently by the outcome of where UBS has been able to execute the hedge. In the event the Client wishes to execute the hedge through UBS, the Client will place an Order with UBS for that hedge position which may include specific instructions as to how it should be executed. The following sections relate to the execution of such Orders relating to such hedge transactions.

5 Order handling

- (a) The key Execution Factors for any Order to which Best Execution requirements apply are price, cost, speed of execution, likelihood of execution, likelihood of settlement, speed of settlement, size and nature of the Order together with any other considerations relevant to the execution of the Order. Orders might potentially be subject to all Execution Factors but the relative importance of each factor is determined by consideration of the Execution Criteria, which include (without limitation) the characteristics of the Client, the Order, the Financial Instrument the subject of the Order and execution venue.
- (b) The primary Execution Factor for the purposes of satisfying our Best Execution obligation will usually be price. However, the relevant UBS trader will consider all pertinent Execution Factors in light of the Execution Criteria, assessing their relative weighting. The assessment of these considerations will determine the appropriate interaction with market.
- (c) By way of example, where a Client places an Order which requires a stock/underlying hedge trade that is very large, covering many days trading volume, the approach may be to execute the hedge over the course of several days, then re-price the derivative based on the performance of the hedge each day until completion. In these circumstances, the approach may be to de-prioritise speed as an Execution Factor given that liquidity on the markets may be insufficient 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 in such cases.

6 Specific instructions

- (a) Where the Client provides specific instructions in respect of an Order it will be executed accordingly with the result that the relevant and/or relevant weighting of the Execution Factors may be determined by the Client.
- (b) Some instructions may be set as ongoing default trading

¹ <https://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=18EC7>

preferences within UBS static data (e.g. crossing and venue instruction). Other instructions will be given on an order-by-order basis and recorded in the OMS (e.g. limits, benchmarks, participation rates, and sensitivity of order). Where default trading preferences exist, these can be changed on individual Orders on the instruction of the Client.

- (c) UBS's Cash and/or ETD desks will provide execution strategies, when the execution of a hedge to a GED product is undertaken by the systems for the relevant business. For the OTC and execution of the hedge, we will follow the execution strategy as determined by the client instruction.

7 **Order routing through electronic market access:**

- (i) Where accessing markets electronically, our routing decisions, including those processed within our algorithms, are predominantly made by the UBS Smart Order Router (**SOR**) where appropriate.
- (ii) The decision as to which Execution Venues and price points to target will depend on both the explicit instructions accompanying each Order and 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. Where Clients choose to be exposed to UBS liquidity sources, we preference UBS liquidity sources when consistent with our best execution obligation.

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