

# Best Execution of equity securities

When you place an order to buy or sell an equity security, we seek to obtain the most favorable terms reasonably available at the time of the execution. This is known as Best Execution.

To do this, we:

- Carefully consider the elements of order execution
- Employ sophisticated technology for routing monitoring and executing orders
- Regularly and rigorously examine overall execution quality

## **The elements of Best Execution**

Five main factors that are considered when assessing the best market for a security:

1. The character of the market for the security (e.g., price volatility, relative liquidity and pressure on available communications)
2. The size and type of transaction
3. The number of markets checked
4. The accessibility of the quotation
5. The terms and conditions of the order as communicated to the firm

## **I. The execution process**

UBS Financial Services Inc. evaluates three principal criteria to determine the best way to execute an order for a client:

1. *Execution speed.* This is particularly important in volatile markets. The impact of volatile markets on order execution is discussed in Section II. The firm seeks to provide customer orders with the fastest execution reasonably possible under the existing market conditions.
2. *Price and size improvement.* In equity markets in the United States and many other countries, firm quotations for stocks (which tell other dealers and investors the price is not negotiable) are published on a regular and continuous basis. The quotations consist of the prices and quantities at which market participants are willing to buy (bid) and sell (offer) stocks.

The National Best Bid and Offer (NBBO) is the highest published bid and the lowest published offer for quoted size (generally under 1,000 shares). UBS Financial Services Inc. seeks price and size improvement for its clients' orders by routing orders to execution venues that may execute trades at prices or sizes better than the NBBO.

3. *Overall execution quality.* When determining how and where to route or execute an order, the firm draws upon extensive experience with various markets, market-makers and electronic communications networks (ECNs), focusing on prompt, reliable execution.

UBS Financial Services Inc. uses automated systems to route and execute most customer orders. When an order is received, it is usually automatically routed to an execution center that UBS Financial Services Inc. (including UBS Securities LLC, an affiliate of UBS Financial Services Inc.) believes will provide the best execution.

UBS Financial Services Inc. regularly monitors other potential execution venues and may route orders in exchange-listed or over-the-counter (OTC) securities to these other venues if it believes that such routing is consistent with Best Execution principles.

Certain larger orders may require special handling and may be routed to an execution center by phone.

## **II. Review of execution quality**

UBS Financial Services Inc. regularly and rigorously evaluates the overall quality of the executions received on clients' orders. Decisions for order routing practices are based on the firm's regular reviews of execution quality.

### **Order execution risks during volatile markets**

Investors should be aware that market and price volatility can affect order execution.

We encourage you to review the following risks associated with volatility, especially at or near the open or close of the standard trading session.

- An order may be fully or partially executed in several transactions at a substantially different price from the quoted bid or offer, or the last reported sale price at the time of order entry. Opening prices may differ substantially from the previous day's close.
- Locked markets (the bid equals the offer) and crossed markets (the bid is higher than the offer) could prevent the immediate execution of customer trades.
- Increased price volatility may result from imbalances between buy and sell orders during initial public offerings (IPOs).
- When investors place a high volume of orders with brokers, order imbalances and backlogs can occur requiring more time to execute orders. Delays are sometimes caused by the number and size of orders processed and the speed at which current quotations or last-sale information can be updated.
- Order delays can create system capacity challenges for the National Association of Securities Dealers Automated Quotations (NASDAQ), the exchanges, UBS Financial Services Inc. and other firms to which UBS Financial Services Inc. routes orders.
- When volatility is extreme, electronic orders may not be executed instantaneously upon receipt and may therefore be affected by price movements. Additionally, brokers may need to discontinue their usual automatic execution procedures and execute orders manually, leading to further delays.

### **Routing and handling orders in volatile markets**

You may want to consider using different types of orders to limit risk and manage investment strategies, particularly when trading in volatile markets. You should consult with your Financial Advisor to review how different types of orders may benefit you.

Our execution process is designed to obtain the best overall result for the execution of orders on a consistent basis. If you provide a specific instruction regarding where you would like your order to be routed, it may prevent us from following our process.

### **Market availability for certain securities**

Market availability for certain securities can vary dramatically. There are situations where quotes or pricing information are limited, which includes jurisdictions outside of U.S. markets. Under these circumstances, UBS Financial Services Inc. will strive to determine the most favorable venue when routing orders for executions.

### **Prohibition against executing trades ahead of customer orders**

Unless the firm immediately executes the customer order at the same or better price than it traded for its own account, FINRA Rule 5320 generally prohibits a broker-dealer that accepts and holds a customer order from trading for its own account at terms that would satisfy the customer order. While the Rule applies broadly to all types of clients and order sizes, it provides exceptions that permit a broker-dealer to trade on its behalf, provided certain conditions are met. One exception permitted by the Rule is known as the "No-Knowledge Exception."

### **No-Knowledge Exception**

UBS maintains several trading units that operate independently from each other, with internal controls known as information barriers between its trading units. The information barriers are designed to prevent one trading unit from having knowledge of a customer order held by a different trading unit.

As a result of these barriers, one trading unit may hold a client order for a security while another trading unit executes an order for the same security on behalf of the firm or a different client account that would satisfy (i.e., fill) the initial client order.

For example, UBS Financial Services Inc.'s Taxable Fixed Income (TFI) desk facilitates the execution of client orders as well as certain principal trading activities. As a result, there may be instances in which the TFI desk executes taxable preferred securities on a principal basis at prices that may differ from those received on a client order executed on another market venue on an agency basis.

## **Types of orders and conditions**

*Market order.* This is the simplest type of order. An investor instructs a broker to execute a trade of a certain size as promptly as possible at the prevailing market price. Firms are required to execute market orders without regard to price changes. Therefore, if the market price moves significantly during the time it takes to fill an investor's order, the order will most likely be exposed to the risks outlined under volatile markets above, including execution at a price substantially different from the price when the order was entered.

*Limit order.* The investor sets the maximum purchase price, or minimum sale price, at which the trade is to be executed. If the market moves away from this price, the order will not be executed unless or until the market price returns to the limit price. Thus, the investor may not receive an execution of the order.

*Stop order (i.e., a stop-loss order).* An order to buy or sell an equity security when it reaches a specified price, known as the stop price. It has a unique identifier instructing the market center to hold such orders for execution until the "stopped" price is touched, at which point it is handled as a market order. The trade is then executed at the next best market price. In a declining market, a stop order may be executed at a lower price than the stop price.

## Important changes regarding stop orders

**Effective March 7, 2016, UBS Financial Services Inc. no longer accepts stop orders for buy or sell transactions in equity securities.**

### **What has changed**

At the opening of the business day on Friday March 18, 2016, any existing equity stop orders were cancelled. You should have received a trade confirmation from UBS for cancelled orders.

This change has been made to protect clients from being exposed to the risks associated with stop orders during periods of extreme market volatility.

## **What is not changing**

We will continue to accept “stop limit orders” (defined below). This change will not have any impact on GTC (Good-Til-Cancelled) equity orders. They will continue to be accepted based on our six-month expiration policy.

## **Types of Orders and conditions (continued)**

*Stop limit order.* These orders combine the features of a stop order with those of a limit order. A stop limit order can only be executed at a specific price (or better) after a given stop price has been triggered. When the stop price is reached by the market, the stop limit order becomes a limit order to buy or sell at the limit price or better. However, in a declining market, there is risk your order may not get executed if the market moves past your limit price.

Depending on the market center where your order is presented, a stop limit order can be activated as a limit order using a transaction or quotation as the triggering event. Effective January 21, 2013, UBS Financial Services Inc. activates all National Market Securities (NMS) stop limit orders (excluding option orders and those with a special handling of “Not Held”) at the stop price. The stop price is used as the triggering event, depending on the marketplace to which the order is presented.

*Not Held or Working order.* “Not Held” is a special qualifier or condition that a client may place on a large order to provide the executing firm with greater discretion in handling that order.

The firm continues to adhere to principles of Best Execution but will be given additional discretion in handling these orders. Accordingly, this may affect the time and price of executions of such an order.

## **Day and Good-Til-Cancelled orders**

*Day Order.* An order that automatically expires if not executed at the end of a trading day.

*Good-Til-Cancelled (GTC) Order.* An order that exists until the order is completed or cancelled.

Effective June 2, 2014, UBS Financial Services Inc. will automatically cancel all open Equity GTC

orders that are in effect for a six-month duration (good for six months). Upon the opening of the next business day, these orders will be cancelled with immediate notification sent via confirmation to the investor. This does not include any orders placed for Equity Plan Advisory Services (EPAS) clients or as part of a 10b5-1 trading plan.

### **In summary**

Before placing any order, the firm encourages you to give careful thought and consideration to risks described in this document and how they may affect an investment in volatile markets. You should also consider how different types of orders might help manage some of these risks.

You should discuss any questions you have about any of the topics concerning our principles of Best Execution with your Financial Advisor.

Participants of companies that use UBS for their employee equity plans should call the phone numbers listed on their statement.

### **Additional resources**

There are several resources available to help explain these and other risks in greater detail, including the websites of the Securities and Exchange Commission ([www.sec.gov](http://www.sec.gov)) and the Financial Industry Regulatory Authority ([www.finra.org](http://www.finra.org)).