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Information on our MiFID order handling & execution policy

Product general procedure – cash equities

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

Product general procedure – cash equities

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 EEA[1] (**UBS**), under UK MiFID and EU MiFID (**MiFID**), when handling or executing cash equity transactions for Professional Clients[2] (**Clients**).

(b) This document supplements 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 Cash Equity services**

(a) The UBS Cash Equities business provides a range of methods of execution to Clients. These are broadly split into three distinct categories:

(i) Worked Orders, representing traditional high touch Sales Trading and Trading services;

(ii) Portfolio Trading, which is the execution of baskets of stocks;

(iii) UBS Electronic Trading – Equities (**ET**), which is the business of providing access for clients to markets via algorithms and direct market access.

(b) In the context of these services, there will be a number of instances where UBS Cash Equities 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.. Orders will also be executed in line with any instructions and constraints placed on the Order by the Client.

(c) In other situations, particularly in the context of quote-driven activity where a presumption exists that there is no legitimate reliance, a detailed review of our flows3 has confirmed that although UBS will always seek to provide competitive prices, these will be UBS' prices and 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.

3 **Worked Order Scope**

(a) **In scope**: Best execution will apply:

(i) when UBS accepts an instruction to "work" an Order via the worked order desk, as UBS will be exercising discretion as to how to execute that Order on the Client's behalf;

(ii) where a Client is trading an equity derivative to the extent that the hedge attained by UBS drives the price of the derivative with the Client;

(iii) in the above situations where UBS provides liquidity as House, defined as UBS ESE and UBS AG Principal flow, and where UBS facilitates liquidity opportunities involving multiple Client Orders by formalising the execution of those Client Orders against each other on external venues

(iv) where Orders are given with instructions to guarantee a certain benchmark - for example guaranteeing the VWAP benchmark over a defined period - within the constraints placed on the Order by the Client.

(b) **Out of Scope**: Best execution will not apply:

(i) to "Facilitation" trades, where a Client requests UBS to commit capital and give our best price, or

(ii) where UBS is distributing a Block position.

4 **Portfolio Trading Scope**

(a) **In scope**: Best execution will apply:

(i) when a Client gives an instruction to UBS to "work" the Order;

(ii) when a Client is trading an equity derivative to the extent that the hedge attained by UBS drives the price offered to the Client;

(iii) for Guaranteed Benchmark Portfolio Trades where UBS agrees to deliver at a pre-agreed visible benchmark where the execution of such an Order would be subject to best execution requirements within the confines of the benchmark specified by the Client.

(b) **Out of Scope**: Best execution will not apply to Risk Portfolios where UBS bids on portfolios of stocks as House, whether on a fully disclosed or blind basis, or whether UBS is the sole quote or among multiple quotes. These prices will be UBS's own risk prices and will not be subject to best execution requirements.

5 **ET Scope**

(a) **In scope**: Best execution applies to Algorithmic Orders placed with UBS via ET and Orders sent via direct market access (DMA). This is regardless of whether, while executing the Orders, the Order interacts with House liquidity, or where the exposure is being gained via an equity derivative.

(b) **Out of Scope**: Best execution will not apply to:

(i) Automated request for Quote Service

(ii) Direct Capital Access

(iii) Sponsored Access Arrangements.

6 **Order Receipt and Capture**

(a) **Worked Order and Portfolio Trading Order Capture**:

(i) Orders are received from Clients via a number of different routes (including FIX electronic, email, voice, and Bloomberg IB chat/message).

(ii) Orders received via electronic STP methods (e.g. FIX) will automatically populate the relevant order management systems (**OMS**). Orders received via non-STP routes (phone, email, chat) will be input manually by the sales trader into the OMS. Manual orders (Worked and Portfolio Trades) are not deemed to have been accepted until explicitly acknowledged as such by the relevant UBS sales trader.

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[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.

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(iii) **ET Order Capture**: Orders are received via electronic STP methods (e.g. FIX) and will automatically populate the relevant OMS.

7 **Order Handling**

(a) 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 such as qualitative factors if applicable. 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:

(i) Order typology;

(ii) The overall objectives of the Client's Order;

(iii) The liquidity profile of the instrument(s);

(iv) The size of the Order;

(v) General market environment and prevailing market conditions;

(vi) Sales trader knowledge of the Clients' Order-handling preferences; and

(vii) The Execution Venues to which the Order can be directed.

(b) The primary Execution Factor for the purposes of fulfilling 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 in light of a wide range of elements that could influence the outcome of the execution. The assessment of these considerations will determine the appropriate interaction with the market.

(c) 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 instrument, the approach may be to deprioritise speed as an Execution Factor and interact more passively with the market. This is because liquidity on the lit 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.

(d) Another example would be where the Client is expecting a large imminent move in the share price due to the performance of a correlated instrument in the market. In order to build a position, the Client may wish to interact with all liquidity with a price limit away from the current market price. While price and cost will continue to be important Execution Factors, in this case they will need to be balanced against speed and likelihood of execution, which will be of greater importance than usual, in order to achieve the Client's objectives. Increased likelihood of execution could be achieved via a higher participation rate and/or the use of Indications of Interest (**IOIs**) or trade advertisements to attract natural counterparts to the Order.

(e) A further example could be where a Client is seeking to execute an Order of smaller size - for example 3% of the average daily turnover - over the course of the day. Given the small size of the order relative to the liquidity, the Client's expectation is to ensure the completion of the Order; likelihood of execution would therefore be an important Execution Factor. As there is ample time to execute the Order with available liquidity, speed would be considered less important while price and cost would continue to be important Execution Factors. A consideration of the Execution Factors against the Execution Criteria in this case may therefore result in a more passive execution strategy where a lower participation rate may be used to reduce any market impact and maximise the price obtained for the Client.

8 **Specific Client Instructions**

(a) 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 accepts and follows Client 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, as set out above. For Portfolio Trades above a certain size UBS may, at its sole discretion, confirm back to clients the specific instructions received.

(b) Some instructions may be set as standing default trading "preferences" which may include preferences on:

(i) accessing a market via equity derivatives or by taking physical delivery;

(ii) being exposed to different kinds of liquidity opportunities arising from UBS's Client and House liquidity via a number of UBS services and liquidity sources, e.g. UBS PIN Information Feed and UBS Systematic Internaliser constructs (including UBS Algorithmic SI and UBS CRB SI).)This would include preferences around access to SI liquidity as well as accessing non House originated liquidity opportunities

(iii) the types of liquidity sources orders should be exposed to including whether orders should route to lit MTFs or dark MTFs;

(iv) Execution Venue(s) and venue types.

(c) Other instructions may 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 the instruction of the Client, either on a general basis or for a specific Order.

(d) For example, a Client may specify all venues/no dark/primary only/individual venue exclusions or inclusions. Where a Client instructs UBS to execute an Order on a particular venue, UBS will not be responsible for selecting the venue although best execution will apply, where relevant, in relation to other aspects of the Order not covered by that instruction.

(e) Additionally a Client may specify that they do not wish for any IOIs or Trade advertisements to be sent in relation to their Orders. The execution would then be carried out without the use of such facilities or the potential liquidity they may generate. This could impact the likelihood or speed of execution.

(f) Where UBS has discretion in relation to an Order, Clients may also specify the manner in which that discretion is to be exercised by providing qualitative instructions, such as:

(i) A view of the market/sector/stock;

(ii) Whether the Order is part of a larger order or contingent on another;

(iii) The preferred level of natural liquidity versus risk capital.

(g) UBS will accommodate all trading preferences or instructions to the extent possible. Clients are solely responsible for informing UBS of any instructions, preferences or changes thereto.

9 **Visibility**

(a) **Worked Order and Portfolio Trading Flow Visibility**: For Worked Orders and Portfolio Trading, the Client and/or the sales trader can choose the level of information they wish to disseminate to internal and/or external stakeholders. For example, the visibility of an Order may be increased in order to

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find potential liquidity opportunities, depending upon the instruction and relevant Execution Factors of the Order. Methods of disseminating information include:

(i) IOIs;

(ii) Trade advertisement;

(iii) Selected calls to clients;

(iv) Visibility of order within internal flow monitoring tools.

(b) **ET Flow Visibility**: UBS operates a physical and electronic segregation of ET from other areas of the bank. This is to ensure that order flow through ET is kept confidential and the Client's anonymity is protected from other sales and trading businesses within UBS. However, UBS offers Clients the ability to make their ET flow visible to specific sales traders outside of ET on request.

10 **Order Routing**

(a) **Selection of Execution Venue**:

(i) **Selection of pool of Execution Venues**:

(A) When selecting UBS's pool of Execution Venues, UBS evaluates potential venues based on functional and economic criteria before connecting to each new venue. Examples of criteria considered will be the liquidity available on the platform, the long term viability of the venue, the market micro structure and types of liquidity on the venue and the clearing as well as the adequacy of venue's settlement infrastructure.

(B) UBS performs a regular assessment of our Execution Venues to ensure that they continue to provide the best possible outcome for our Clients on a consistent basis and to consider whether any changes are merited. The evaluation includes both existing connected venues and other liquidity pools that are not currently connected to.

(ii) **Client Instructions as to Execution Venue**:

(A) Clients may specify the Execution Venue(s) and venue type(s) on which they wish their Orders to be executed. Clients may do this by establishing default preferences or on an order-by-order basis. For example, a Client may specify all venues/no dark/primary only/individual venue exclusions or inclusions. Clients should be aware that such instructions will limit UBS's discretion and will only apply best execution procedures within the confines of those instructions. UBS uses proprietary algorithms and proprietary "smart order routing" technology in nearly all major markets. Although UBS uses direct connections for all developed markets, in certain markets UBS may engage the services of local Third Party Brokers to assist in handling and executing Client Orders. For example, in EMEA we currently use third party connections for the Czech Republic, Turkey, Hungary, Egypt, Morocco, the UAE, Kuwait, Qatar & more. Where an Order is received (A) by a UBS entity resident in the UK for execution in a non-UK market or (B) by a UBS entity resident in the EEA for execution in a non-EEA market, UBS may use an affiliate entity to execute the Order. UBS may also engage the services of third parties to assist in handling and executing Client Orders in order to meet business continuity requirements.

(b) **Worked Order and Portfolio Trading**:

(i) Worked Order sales traders have a number of options as to how to route an Order, depending on Client instructions and the level of any discretion given. Any such discretion will be exercised in accordance with due consideration of the Execution Factors and Execution Criteria. As a result, s/he may:

(A) Execute the Order against other working complementary Orders on an Execution Venue;

(B) Input the Order into the algorithmic suite via OMS;

(C) Use risk capital via the Trading desk; or

(D) Route the Order to a High Touch Trader for execution.

(ii) Clients should be aware that UBS will only be able to execute Orders in relevant instruments off a Regulated Markets or MTF where the Client has provided their prior express consent.

(iii) For Worked Orders and Portfolio Trading flow, all order flow released from the OMS will pass through the High Touch Trading desk's Execution Management System (**EMS**) for execution. The level of information that a sales trader chooses to disclose to the trader is at the Client's and/or sales trader's discretion. The full size of the Client Order need not be fully routed to the trader; rather, the sales trader can choose to part-slice the Order. Order flow routed via the High Touch and Portfolio Trading OMS to the traders for execution will be subject to a number of dynamic checks, which reference the order characteristics and those of the underlying instrument to determine if the Order merits human intervention. As such, some Order flow – for example, an Order that is small in comparison to available liquidity – may route straight into the algorithmic trading infrastructure for execution, as the type of Order is deemed not to require a human review.

(c) **Smart Order Routing**:

(i) Where accessing markets electronically, UBS's routing decisions, including those processed within our algorithms, are predominantly made by the UBS Smart Order Router (**SOR**).

(ii) 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.

(iii) In the UK and EEA, algorithmic Client Order flow is generally exposed to the identification of potential liquidity opportunities via the UBS PIN Information Feed. Our routing logic is a function of the algorithmic trad-ing engine's assessment of the best opportunity for achieving the objectives of the Order taking into ac-count factors such as: symbol, strategy, terms and conditions of the Order, and market situation. Based on our continued analysis and experience, we believe UBS liquidity sources provide meaningful opportunities for quality executions. Therefore, when handling or-ders for clients, we preference UBS liquidity sources when consistent with our best execution obligation.

11 **Monitoring**

(a) **Real Time Monitoring**:

(i) For Worked Orders and Portfolio Trading, the UBS sales trader and trader conduct real-time monitoring of the Order throughout its lifetime using a variety of order and market monitoring tools, including the internal

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Order Management Systems and Execution Management Systems.

(ii) For ET flow, the relevant electronic sales trader performs checks on the performance of the algorithms being used for Client Orders.

(iii) Orders from all businesses that are executed algorithmically will also be subject to monitoring by the Algorithmic Trading Desk. UBS's algorithmic trading desk has full visibility of all algorithmic orders, on both a real-time and historical basis.

(iv) 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**:

(i) All Orders to which best execution obligations apply are subject to post-trade monitoring. This monitoring comprises of Transactional Cost Analysis reports as well as Order Handling reports. Executions which fall outside designed tolerances are included in trend analysis, presented in the product working group. Outliers in the trends are highlighted and investigated.

(ii) UBS internal Compliance Monitoring and Surveillance team performs a separate review of this monitoring to ensure the efficacy of the monitoring process.

(iii) UBS is able to offer execution analysis upon request from the Client.

12 **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 Bloomberg IB chat/message or voice).

13 **Order Amendments**

(a) The Client and/or sales trader may, in most situations amend instructions (e.g. such as limit, benchmark, participation rate and algorithm) throughout the life of the Order prior to execution. Such amendments or instructions, received from clients on manual orders (Worked and Portfolio Trades) are only effective when explicitly acknowledged by the relevant UBS sales trader/trader.

14 **Fees**

(a) Commission rates are pre-agreed through negotiation between UBS and 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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