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Information on our MiFID order handling & execution policy

Product general procedure – Equity Derivatives and Structured Financing

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

Product general procedure – Equity Derivatives and Structured Financing

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 EEA[1] (**UBS**) when handling or executing equity derivative 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**

(a) The UBS Equity Derivatives businesses offer 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) The UBS Structured Financing (SF) business offers a range of financing solutions which include:

(i) Collateral Switch;

(ii) Total Return Swaps (TRS);

(iii) Repo;

(iv) Secured Special Purpose Vehicle (SPV) Issued Notes;

(v) Secured Loans; and

(vi) Letter of credit.

UBS will generally provide Clients with financing rates, haircut or other terms on a reverse enquiry basis. Although UBS will always strive to provide competitive prices, Clients should be aware that these will be UBS prices and that such services are not subject to our MiFID best execution policy.

(c) In the context of offering services and entering into transactions with Clients in the products outlined in 2(a), we have considered all Equity Derivative flows against relevant criteria (as set out in the Policy Information document) 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 the Equity Derivatives businesses, 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.

(d) We have, however, identified some instances where Equity Derivatives businesses will be executing Orders on behalf of our Clients and therefore where those 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 requirements (**Best Execution**) set out by the UK and German regulators, reflecting the provision of MiFID.

(e) We have determined that, in the context of the Equity Derivatives businesses detailed above, Best Execution requirements will apply in the following situations:

(i) Equity Derivatives businesses execute 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.

(iii) Trading (acting as calculating agent) is instructed with rebalancing the notional portfolio underlying an Actively managed Certificate (AMC) upon receiving the instructions from an external Reference Portfolio Advisor (RPA).

(f) The scope of application of the Best Execution requirements is kept under regular review and will be revised as necessary.

(g) When the execution of a hedge to an Equity Derivatives product is undertaken by UBS's Cash and/or Clearing and Execution 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: www.ubs.com/ibterms.

(h) What follows is a description of the way in which the Equity Derivatives businesses address their Best Execution obligations in the situations described above.

3 **Orders for listed options**

(a) Where we take Orders from Clients in listed options we will, subject to any explicit instructions from the Client, execute that Order on the Client's behalf in accordance with appropriate consideration of the Execution Factors and Execution Criteria. Execution venue selection is determined on a case by case basis, as instructed by the client. The execution of these Orders is handled by Equity Derivatives sales traders through our Exchange Traded Derivatives (**ETD**) desks' 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

[1] Information on legal entities comprising UBS investment bank entities in the 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.

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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. Section 6 set out how such Orders relating to such hedge transactions are received, handled and executed by UBS.

5 **AMC rebalancing**

(a) Where we receive instructions from Clients to rebalance constituents of a Reference Portfolio we will, subject to any explicit instructions from the Client, acquire or unwind exposure to the constituent in accordance with appropriate consideration of the Execution Factors and Execution Criteria. Execution venue selection is determined on a case by case basis, as instructed by the client. For more details on order receipt and capture, please refer to section 6.

6 **Order receipt and capture**

(a) Orders may be received from the Client via a number of different routes (including electronic, email, voice, and Bloomberg IB chat/message).

(b) Upon receipt of a new Order, whether electronic or IB chat/phone/email, where appropriate, the relevant sales person may have a dialogue with the Client to establish or confirm the Client's desired execution strategy.

(c) The Client can specify a number of instructions for the Order which are recorded internally. These include limits, benchmarks, venue, speed or execution and UBS will exercise its discretion to deliver Best Execution within the parameters of any such instructions.

7 **Order handling**

(a) The key Execution Factors for any Order to which Best Execution requirements apply are price, cost, speed, likelihood of execution, 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 the following contributing elements:

(i) The particular instructions from the Client;

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

(iii) The size of the Order;

(iv) General market environment and prevailing market conditions;

(v) Sales person knowledge of Client's Order handling preferences.

(b) Client instructions will be captured in the relevant order management systems (**OMS**) and execution management systems (**EMS**).

(c) 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.

(d) Some instructions may be set as ongoing default trading preferences within UBS static data (e.g. capacity, 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.

(e) UBS's Cash and/or Clearing and Execution desks will provide execution strategies, when the execution of a hedge to an Equity Derivatives 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.

(f) 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 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 market with a view to achieving the best outcome for the Client.

(g) 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.

(h) In other situations, the Order may create an FX exposure. In such circumstances the Equity Derivatives trader will hedge this exposure through the UBS FX, Rates and Credit desks (as relevant). The FX, Rates and Credit desks will then execute those hedges in accordance with their execution procedures, subject to any instructions provided to them by the Equity Derivatives traders on behalf of the Client.

(i) For information on how FX, Rates and Credit apply Best Execution in their areas, please refer to the UBS Rates & Credit Product General Procedures and UBS FX Product General Procedures.

(j) 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.

8 **Order routing**

(a) **Generally**:

(i) Clients may specify the Execution Venue(s) and Execution Venue type(s) on which they wish to trade these hedge transactions, and also the capacity in which they wish to trade them. Clients can do this by setting 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. Where a Client instructs UBS to execute an Order on a particular venue, UBS will not be responsible for selecting the Execution Venue although Best Execution requirements will continue to apply in relation to all other relevant aspects of the Order.

(ii) UBS uses proprietary algorithms and proprietary smart order routing technology where appropriate. We use direct connections for all developed markets but in some markets we may engage the services of local brokers to assist in handling and executing Client Orders (For example, in EMEA we currently use third party connections for the Czech Republic, Hungary, Egypt, the UAE, Kuwait, Qatar, and Morocco). Where an Order is received by UBS for execution in a non-EU market, UBS may use an affiliate (a Connected Party) to execute the Order. UBS may also engage the services of Third Party Brokers to assist in handling and executing Client Orders in order to satisfy business continuity requirements.

(iii) Equity Derivatives sales people/traders have a number of options as to how to route an Order, subject to the

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Client's instructions and the level of any discretion remaining. S/he may:

(A) Cross the Order with other working complementary Orders;

(B) Input the Order into the algorithmic suite via the execution system (possibly with a limit);

(C) Use UBS risk capital via executing with the UBS principal trading desk;

(D) Route the Order to a high touch trader for execution.

(iv) The decision as to which option to choose will be dependent upon the characteristics of the Order and Financial Instrument in question such as depth of liquidity and market volatility of the underlying asset with the desire to ensure the best opportunity to secure the optimum result for the Client. For example, where a Client places priority on the speed of execution of the hedge, they may elect to use a high touch trader, accepting the increased costs associated with this route.

(v) Clients should be aware that UBS is only permitted to execute Orders in relevant Financial Instruments off a regulated market or MTF where the Client has provided their prior express consent. The absence of such consent may therefore limit the options available to UBS to secure the best result for the Client.

(b) **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**).

(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 outcome for our Clients.

(iii) Our interactions with Execution Venues are guided by objectively observed and calculated parameters.

9 **Monitoring**

(a) **Execution arrangements**: UBS regularly assesses whether the Execution Venues and crossing networks included in our policy information provide the best possible result for Clients or whether adjustments are merited. Execution Venues are formally reviewed on a monthly basis by internal management. This evaluation includes consideration of both Execution Venues we are, and those we are currently not, connected to as part of our execution arrangements.

(b) **Real time monitoring**:

(i) The UBS sales person/trader conducts real-time monitoring of the Order throughout its lifetime using the EMS.

(ii) Any Order on any execution channel that is executed algorithmically will also be monitored by the algorithmic trading desk. Our algorithmic trading desk has full visibility of all algorithmic orders, on both a real-time and historical basis.

(iii) Checks and controls are applied to the execution of all Orders 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 protective limits are reviewed before they are sent for execution.

(iv) The main validations and controls that can apply are:

(A) Client specific notional trading limits;

(B) Strategy specific checks;

(C) Franchise failsafe checks;

(D) Market order level circuit breakers.

(c) **Post trade monitoring**: 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 transactions. Executions which fall outside designed tolerances are highlighted and investigated.

10 **Client communication**

(a) Our Clients can be updated throughout the life of their Order, specifically the sales person can provide manual updates, for example, via Bloomberg IB chat/message or voice.

11 **Order amendments**

(a) Clients and/or sales person can generally amend instructions on the Order, such as limit, benchmark, participation rate and algorithm, throughout the life of the Order. Default Client preferences, such as those related to capacity, crossing and venues, will not be amended without express instruction from the Client.

12 **Confirming execution of order**

(a) The sales person will seek to update the Client on the progress of Order execution, from partial fills (where appropriate) to Order completion.

13 **Assessing execution of order**

(a) Orders are monitored post-execution with respect to the speed of execution and adherence to relevant benchmarks (please see above for Post Trade Monitoring detail). Executions which fall outside designed tolerances are highlighted and investigated.

(b) UBS is able to offer execution analysis to Clients upon request.

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