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Information on our MiFID order handling & execution policy

Product General Procedure – Capital Markets Financing

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For information about our Investment Bank entities, visit www.ubs.com/ibterms

Product general procedure – Capital Markets Financing

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

1 Purpose

(a) This 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 equity finance transactions for Professional Clients[2] (**Clients**).

(b) This document is a supplement to UBS Investment Bank's Order 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 Capital Markets Financing (**CMF**) business offers a range of services to facilitate Client activity in synthetic equity and 'delta one' products. This includes market- making and execution in:

(i) OTC and Listed Derivatives over a single stock or a basket of stocks, (both fixed term and daily reset);

(ii) Exchange for physicals: Portfolios of stocks traded with Clients against hedges in related futures and forwards; and

(iii) Stock Borrow & Loan - Providing stock borrow for prime brokerage Clients, house trading books and market counterparties.

(b) In the context of offering services and entering into transactions with Clients in these products, we have reviewed all CMF flows with a view to identifying those situations where UBS executes Orders on Clients' behalf. These are situations where Clients may rely legitimately on UBS to protect their interests in relation to pricing and other elements of the transaction that may be affected by the choices made by UBS when their Orders.

(c) The European Commission provided guidance[3] on determining the presence of legitimate reliance which is also reflected in the FCA's rules and recent thematic review. UBS's review took into account this guidance (including consideration of the 4 suggested factors[4]) as a means to help determine whether legitimate reliance should be placed on UBS. We have concluded that in the context of CMF 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 legitimately rely on UBS.

(d) In those situations where we have identified that CMF will be executing Orders on behalf of Clients, the delivery of those services will be subject to the best execution requirements (**Best Execution**) set out by the UK Financial Conduct Authority, reflecting the provision of UK MiFID.

(e) Within CMF we have determined that Best Execution will apply primarily when one of the primary economic determinants executed with a Client is driven at least in part by the execution of the hedge secured by UBS. Specifically the hedge will be subject to Best Execution requirements and these situations arise in the context of transactions in:

(i) OTC derivatives

(ii) Listed delta 1 derivatives

(f) When the execution of a hedge to a CMF product is undertaken by UBS's Execution desks, we would refer Clients 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.

(g) The scope of applicability of the Best Execution requirements to the CMF business is kept under regular review and will be revised as necessary.

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

(a) This will be relevant particularly in the context of hedges to exchange traded funds, OTC and listed delta 1 products.

(b) In some situations UBS will agree to transact with a Client where only some of the instrument inputs are known at point the transaction is concluded. Specifically the final price paid by the Client is determined subsequently by the outcome of where UBS has been able to execute its hedge. The execution of that hedge is a matter for UBS' discretion and thus although that hedge transaction is not directly with the Client, we do consider it to be in scope for Best Execution as our Client will be legitimately relying on us to look after their interests in such circumstances.

(c) In the context of Synthetic Prime Brokerage activity, the execution of the hedge is carried out by the Execution Services desk: please refer to the Execution Services Product General Procedures at www.ubs.com/ibterms for further details on the Execution Services Best Execution procedures. In all other situations, the hedge is executed by CMF personnel. One exception to this is the where the hedge execution occurs entirely within the Execution Services division.

(d) The following sections provide a general description of the way in which Best Execution obligations are addressed when CMF traders are responsible for executing Clients' Orders in relevant hedges:

4 Order and Receipt Capture

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

(b) Upon receipt of a new Order, be it electronic, IB/phone/ email, the sales person may have a dialogue with the Client to confirm or establish the execution strategy.

(c) The Client may specify a number of instructions or parameters for the execution of their Order which can include limits, benchmarks, speed, venue or execution.

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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] European Commission Working Document EDC-07-2007.

[4] 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.

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5 Order Handling

(a) Client instructions will be captured in the relevant Order Management and Execution Management Systems.

(b) The key Execution Factors for any Order are price, cost, speed, likelihood of execution, likelihood of settlement, size and nature of Order together with any other considerations relevant to the execution of the Order. Orders are potentially subject to all Execution Factors, but the relative importance of each factor is determined by contributing elements (**Execution Criteria**).

(c) The primary Execution Factor for the purposes of discharging the Best Execution obligation will usually be price. However, the relevant CMF trader will consider all relevant Execution Factors in light of applicable 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. These may include: the overall objectives of the Client's Order; the liquidity profile of the instrument; the size/type of order and the general market environment, and Sales trader knowledge of Client's Order handling preferences.

(d) Where the Client provides specific instructions in relation to a particular Order it will be executed in accordance with those instructions. In following those instructions, UBS will satisfy any Best Execution requirements in relation to those elements of the Order subject to such instructions. UBS's Execution desks will provide execution strategies, when the execution of a hedge to a CMF 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

(e) 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 the Order). Where default trading preferences exist, these can be changed on individual Orders on the instruction of the Client.

(f) Examples:

(i) A Client places a custom basket Order directly with a UBS sales trader. The hedge to the custom basket contains individual stock components from multiple exchanges. The price that UBS is able to achieve on those individual stock components will drive the price of the custom basket transaction with the Client. Typically when executing those component transactions, the primary Execution Factor considered will usually be price. However, certainty of execution and time taken to complete the Order will also be relevant to a greater or lesser extent, depending upon the prevailing circumstances which will include any specific instructions provided by the Client.

(ii) The relative liquidity of the components of the basket and time of day will contribute to the determination of the execution strategy and relative weighting of Execution Factors. For example, where price remains paramount, UBS will generally interact with the market in a manner designed to minimise the market impact and therefore maximise the opportunity to secure the optimal price for the Client. However, where an Order is received late in the day or where the Client requires a rapid execution, time and certainty of execution will increase in relative importance to the potential detriment of price.

(iii) Other influences on the relative weighting of Execution Factors can be caused by circumstances outside of UBS or the Client's control, such as:

(A) Stock suspensions

(B) Trading restrictions

(C) Ability to sell due to lack of borrow availability

(D) Market/exchange closed

(iv) When such events occur, UBS may have to exercise discretion as to how to best to complete the Order and the relative importance of the Execution Factors may change. Typically speed and likelihood of execution become the dominant Execution Factors.

(v) Indeed where an Order cannot be completed (for example due to the reasons cited above), UBS may offer a risk price for the outstanding elements.

(vi) Typically in these situations UBS will use externally available benchmarks to determine the price of the risk fill, such as a grey market in the underlying or comparable stocks and futures

(vii) Where this happens, CMF will always seek to achieve the overall best outcome for the Client in respect of the execution approach taken and will inform the Client of the approach taken.

6 UBS will generally seek to satisfy these Execution Factors by executing the transaction directly in the primary market. Order Monitoring

(a) **Execution Arrangements**: For CMF products, execution venue selection is determined on a case by case basis, at the client's request. UBS regularly assesses whether the Execution Venues and crossing networks included in our order execution policy provide the best possible result for their Clients on a consistent basis or whether adjustments are merited, by assessing 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 microstructure, types of liquidity on the venue, clearing as well as the adequacy of venue's settlement infrastructure. We assess our Execution Venues formally on a regular basis and that evaluation includes an assessment of available Execution Venues.

(b) **Real Time Monitoring**:

(i) For worked Orders UBS conducts real-time monitoring of the Order throughout its lifetime using a variety of order and market monitoring tools, including the internal Order Management Systems and Execution Management Systems.

(ii) Any Order on any execution channel that is executed via algorithm will also be monitored by the Algorithmic

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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 (for Direct Execution Orders);

(B) Strategy specific checks;

(C) Franchise failsafe checks;

(D) Market Order level circuit breakers.

(c) **Post Trade Monitoring**: All Orders where UBS has a Best Execution obligation are subject to post trade monitoring.

7 Client Communication

(a) The Client can be updated throughout the life of the Order. If the Client is connected electronically they may receive automated real-time execution updates; if the Client is not connected electronically, the sales trader can provide manual updates (for example, via Bloomberg IB chat/message or voice).

8 Order Amendments

(a) The Client and/or sales trader 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 generally not be amended without express instruction from the Client.

9 Confirming Execution of Order

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

10 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 provide Clients with execution analysis upon request.

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