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Information on our MiFID order handling & execution policy

Product general procedure – foreign exchange



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This communication relates to our global markets business. For more information visit www.ubs.com/ibterms

Product general procedure – foreign exchange

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

1 Purpose

- (a) This document provides information on the application of best execution by UBS investment bank entities in the UK or EEA (**UBS**)¹ when handling or executing Foreign Exchange transactions for Professional Clients² (**FX services**). **Foreign Exchange** and **FX** here includes the exchange of both currencies and precious metals.
- (b) This document should be read as a supplement to 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 in UBS FX

- (a) UBS has undertaken a detailed analysis of the application of best execution obligations (**Best Execution**) to the FX services, in line with the relevant regulatory rules and guidance. Where relevant, orders to which Best Execution applies (**Orders**), will also be executed in line with any instructions and constraints placed on the Order by the Client. In other situations, particularly in the context of quote driven activity, a review of the flows has confirmed those FX services will not be subject to Best Execution requirements. The paragraphs below explain in more detail when and how Best Execution obligations apply in the context of FX Services.
- (b) Deliverable Spot contracts are not Financial Instruments within the scope of the relevant regulations for these purposes, and therefore are not in scope of Best Execution³.
- (c) Clients are able to submit the following types of instructions and requests for any non-spot FX product: i.e. non-deliverable and deliverable forwards, swaps, options and exchange of futures for physical:
 - (i) **Resting Orders**: These Orders include stop loss, take profit and other limit orders which are valid for a defined period of time (which can include overnight). that can be executed at the price specified (or, in some cases, better) without subsequent confirmation from the order submitter. This is a Best Execution service.
 - (ii) **Immediate Orders**: These Orders may be at best or at worst orders that are instructions to execute at the most desirable price available and as quickly as possible without subsequent confirmation from the order submitter. This is a Best Execution service.
 - (iii) **Algo Orders** (where available).
 - (iv) **Firm Fixed Price Orders**: An Order to buy or sell at a fixed price which is executable at the stated price only and is not contingent, nor subject to, subsequent confirmation from the order submitter. This is a Best Execution service, though only in relation to non-price-related matters.

- (v) **Fixing or Benchmark orders**: An order to buy or sell at the externally published fixing or benchmark price (plus a spread or fee, if applicable) without subsequent confirmation from the order submitter. All Execution Factors are either fixed (e.g. disclosed fees) and/or subject to specific client instructions. This service is not a Best Execution service.
- (vi) **Indications of Interest (IOIs)**: Where the Client indicates their interest to trade with UBS at or near a certain price. If UBS is subsequently prepared to trade at or near that price, UBS will contact the Client and quote the price at which UBS is willing to trade. For some FX services, IOI are electronically captured in internal tools and UBS salespeople will be automatically alerted to making a call back to Clients. For other FX services, IOI tracking is manual. The decision to proceed or not with that trade at the UBS price offered will be with the Client. This service is not a Best Execution service.
- (vii) Clients may also request a quote (**RFQ**) for a price from UBS which is the predominant way in which FX services operate including in the case of FX position rolls and roll-to-forward transactions. This is not a Best Execution service.

3 Where does UBS provide Best Execution in FX services?

- (a) In summary, for FX services Clients should note that Best Execution is only applicable in the context of Orders: specifically Resting Orders, Immediate Orders, Algo Orders and Firm Fixed Price Orders.
- (b) UBS's procedures with respect to addressing Best Execution requirements in respect of these Orders, both for electronic and manual execution, are described in more detail below.

4 Order Execution

- (a) UBS FX is the sole Execution Venue for executing Orders to which Best Execution requirements apply in FX products.
- (b) The Execution Factors for any Order to which Best Execution requirements apply are, subject to any specific instruction or fixed element, price, cost, speed, likelihood of execution and settlement fees, size, and any other consideration relevant to the execution of an Order. 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) The Client;
 - (ii) The Order;
 - (iii) Financial Instruments that are the subject of the Order; and
 - (iv) The Execution Venues to which the Order can be directed.
- (c) Where the Client is able to provide 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

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. The EEA does not include Switzerland.

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 FX spot transactions may be subject to Best Execution requirements indirectly where they form an embedded part of an instrument which is in scope for Best Execution (e.g. FX forward).

any Best Execution requirements with respect to those aspects of the Order. Any 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.

- (d) For Firm Fixed Price Orders where Clients instruct on price, when receiving these orders, UBS will agree a time frame for which the order is active and UBS's ability to execute will be based on whether there is sufficient liquidity available at the Fixed Price **at any point** during this period. Absent of any specific instructions, with respect to certainty and timeliness, we will assume the order is good until the end of the day only, unless the order is to be filled next day in another region in which case it is good until the end of day in such region).

5 Electronically executed FX transactions

- (a) Clients predominantly execute FX transactions with UBS electronically and a Best Execution service is available for:
 - (i) all Clients, worldwide, executing FX electronically with UBS; and
 - (ii) Spot FX transactions⁴, as well as for FX forwards, options, non-deliverable forwards (**NDFs**) and swaps.
- (b) For electronic execution, liquidity is delivered via continuous price streams. Best Execution compliant price streams are available for trades executed electronically over the following channels:
 - (i) UBS Neo;
 - (ii) UBS TPricer – Neo;
 - (iii) FIX API.
- (c) The primary Execution Factors for discharging the Best Execution obligation that the FX Best Execution pricing streams aim to optimise are:
 - (i) Core price (the price exclusive of any transaction costs) other than when the price is fixed by the Client as in the case of Firm Fixed Price Orders;
 - (ii) Certainty of execution (i.e. hit ratio; ensuring that an acceptable proportion of requests result in a successful execution);

within the constraints of:

 - (iii) Client channel (optimising factors (i) And (ii), within the technical limitations of the channel through which the Client deals).
- (d) Two way bid-offer prices are provided to the Client, where available, so that the Client has full visibility with respect to the cost of transacting before execution.
- (e) "Last look" functionality is employed on Best Execution compliant price streams. For more information about how UBS deploys last look, please refer to the EFX Disclosure or speak to your usual UBS sales or relationship contact.

6 Benchmarking & Monitoring for electronically executed FX transactions

- (a) Best Execution compliant price streams are benchmarked against external and internal reference prices to ensure that Best Execution is achieved on a consistent basis. Wherever possible, external reference prices from market venues and brokers are used to obtain the best comparison of UBS's price against externally available prices. External observed prices may be adjusted for comparison purposes to take into

account known costs of executing on external venues, (for example price slippage factors according to trade size). Where the external data available is limited in scope or quality, internal data may be used as a reference, (for example executed prices of comparable trades).

- (i) Spot prices for electronic execution are benchmarked on a tick-by-tick basis.
- (ii) Forwards, Swaps, and NDF prices are benchmarked on a tick-by-tick basis for all available standard tenors.
- (iii) Options prices are benchmarked on a tick-by-tick basis for all available standard tenors.
- (b) The benchmarking follows a tiered approach based on the availability of prices:
 - (i) **Tier – 1:** Firm prices are available all the time (consistent prices) and the core price is benchmarked by calculating the percentage of time it is inside or equal to the market top of book bid/offer. E.g. most Spot prices.
 - (ii) **Tier – 2:** Firm prices are not consistently available. When firm prices are available, the core price is benchmarked by calculating the percentage of time it is inside or equal to the market top of book bid/offer. E.g. most Options prices.
 - (iii) **Tier – 3:** Good indicative prices are available, and the core price is benchmarked by calculating the percentage of time it is inside or equal to the market top of book bid/offer plus a suitable threshold determined by UBS to account for the indicative nature of market prices. E.g. most Forwards prices.
 - (iv) **Tier – 4:** For a handful of illiquid CCYs, no regular external prices are available. In such a scenario no benchmarking is possible and therefore likelihood of execution with respect to market conditions takes precedence over price. UBS is continuously exploring alternate, real-time market data sources to verify if reliable pricing data is available for illiquid products and CCYs. E.g. illiquid NDF prices.

Unless otherwise stated, the UBS core price is the top of the book mid-price with no cost components added to it.

- (c) The results of benchmarking are reviewed by UBS management on at least a monthly basis. In the event benchmarking activities identify that pricing needs to be adjusted in any area, appropriate corrective action is taken going forward.
- (d) Benchmarking and monitoring may differ by asset class.

7 Transaction Costs for electronically executed FX transactions

- (a) The total execution price for the Client includes transaction costs charged by UBS for accessing its electronic liquidity. Transaction costs are calculated as the difference between the Client execution price and the UBS core price (top of the book mid). Transaction costs can include, but not limited to: costs associated with accessing liquidity, client coverage, counterparty risk, balance sheet usage and operational factors. For their in-scope transactions, clients can see indicative transaction costs pre-trade and actual transaction costs post-trade on UBS Neo.
- (b) A summary of all execution channels where transaction costs are available is given below:

Execution Channel	TCA Available via
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⁴ Although not required from a regulatory requirement as explained earlier in these Procedures, UBS nevertheless seeks to provide a Best Execution-standard process for FX spot.

Neo FX	Neo FX
New FIX API (ACE)	Neo FX
Voice Sales	Voice Sales

Further details can be obtained through contacting your usual sales or relationship contact.

8 Instructions for electronically executed FX Options are restricted in all locations

- (a) Until further notice, UBS will not be accepting the following Order types in **FX options** in any location globally:
- (i) **Resting Orders:** stop loss, take profit and other limit Orders; or
 - (ii) **Immediate Orders:** at best, at worst Orders.
- (b) UBS continues to transact FX options with all Clients on the basis of:
- (i) RFQs;
 - (ii) IOIs; and
 - (iii) Firm Fixed price orders.

9 Manually executed FX Orders

(a) Placing a Best Execution voice Order

- (i) Voice Orders may be placed by contacting a UBS salesperson, or by entering the Orders via an electronic channel (e.g., UBS Neo "Manual" orders and all FX Trader Plus Orders). In either case the execution of the Order will be performed by a member of UBS staff rather than the Order being executed automatically via an electronic trading platform (see section 5 "Electronically executed FX transactions").
- (ii) If the Client wishes the Order to be executed according to any specific instructions (for example to execute in small tranches over a period of time), the Client should ensure that such instructions are communicated clearly to the UBS member of staff receiving the Order, and the UBS member of staff confirms that the instructions are received and understood.
- (iii) In order to demonstrate Best Execution on voice Orders, the UBS salesperson has to electronically capture these Orders in internal tools. In exceptional market scenarios, the UBS salesperson may communicate order fills to the Client before capturing these in internal tools.

(b) Executing a Best Execution voice Order

- (i) UBS staff will seek to execute the Client's Order in accordance with any instructions that the Client may specify when placing the Order. Any Best Execution requirements will be exercised within the confines of any Client specific instruction. If for any reason the Client's instructions cannot be met, for example due to changing market conditions, UBS will contact the Client to inform them of such changes and request further instruction.
- (ii) For example, if a Client leaves an Order to buy with a limit price of 52 or better, but the market gaps higher before the Order can be executed, UBS will only amend the limit price for the Order on an updated instruction from the Client.
- (iii) When executing the Client's Order, UBS will aim to achieve the best outcome for the Client. Normally, this will mean seeking to achieve the best price as the principal Execution Factor. Subject to any specific instructions the Client may have given UBS as to how the Order should be executed, UBS will use its professional judgement, taking account of all relevant Execution Criteria, as to how to fill the Order, e.g.:

- (A) whether to execute the Order (limit and stop loss orders)
- (B) whether to access third party liquidity versus UBS's own liquidity
- (C) whether to execute in tranches over a period of time.

- (iv) In all cases, UBS FX will be the sole Execution Venue for the execution of transactions in FX products.
- (v) **Example:** if the Client has instructed UBS to use its discretion when managing a stop loss Order and to execute the Order only if the market moves through the level, UBS may decide not to trigger the Order if it only sees one isolated trade elsewhere in the market at that level. Instead UBS will execute the Order only when in its judgement the market has clearly moved through the level, and in which case, the final price will reflect any resulting price slippage.
- (vi) **Example:** A Client places an "at best" Order to buy a large quantity relative to market liquidity. UBS would typically seek to hedge its risk by buying small tranches where it can find the best liquidity. The objective of this approach is to reduce the market impact of the execution process, thereby enabling UBS to secure a better price for the Client than if the hedge had been executed externally in one large trade.

10 Benchmarking and Monitoring for voice Orders

- (a) All manually executed Orders received over voice and electronic channels which are subject to Best Execution are benchmarked against external or internal reference prices to ensure that Best Execution is achieved on a consistent basis.
- (b) For benchmarking, the core price of the order is compared to a time-weighted average of market prices during the execution period. Wherever possible, external reference prices from market venues and brokers are used to obtain the best comparison of UBS's price against externally available prices.
- (c) The results of benchmarking are reviewed by management on at least a monthly basis. In the event benchmarking activities identify that pricing needs to be adjusted in any area, appropriate corrective actions are taken going forward.
- (d) Benchmarking and monitoring may differ by asset class.

11 Transaction Costs for Voice Orders

- (a) Transaction costs defined in section [7] above are also applicable to voice executed orders. The total execution price for the Client includes transaction costs charged by UBS for executing the voice Order.
- (b) Clients may request indicative Transaction Costs from UBS before they place an Order that is subject to Best Execution requirements. Clients may also request Transaction Cost Analysis (**TCA**) post-trade to monitor their actual transaction costs. This can be obtained through contacting your usual sales or relationship contact.
- (c) Where available, Clients can also see the post-trade TCA for their transactions subject to Best Execution requirements, in UBS Neo. TCA is shown for Client transactions executed via Neo, New FIX API (ACE) or Voice Sales.

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