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# Information on our Hong Kong & Singapore order handling & execution policy

Product general procedure – exchange-traded derivatives



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# Product general procedure – exchange-traded derivatives

This is a supplement to the information on our Hong Kong & Singapore Order Handling & Execution Policy.

## 1 Purpose

- (a) This document supplements our information on our Hong Kong & Singapore order handling & execution policy (**Policy Information**) available at: <https://www.ubs.com/global/en/investment-bank/regulatory-directory/global-markets-bestexecution-hksg.html> and these include instances where a Client contacts UBS looking for UBS to commit capital for a trade and provide UBS's best price. The Client can then choose whether they wish to execute at the price provided by UBS.

- (b) Capitalised terms not defined in this document shall have the same meaning as in the Policy Information document.

## 2 Scope

- (a) The UBS exchange-traded derivatives (**ETD**) business provides a range of methods of execution to Clients. These are broadly split into two distinct categories:

- (i) Worked Orders, representing sales trading and voice execution services;
- (ii) Direct Market Access, representing electronic trading solutions wherein the Client executes directly in the market via UBS's infrastructure.

- (b) In the context of offering ETD services, there will be a number of instances where the UBS ETD Desk will be executing Orders where such Clients may be legitimately relying upon UBS to look after their interests. In such circumstances, the delivery of those services will be subject to the best execution guidelines set out by the SFC<sup>1</sup> & by the MAS<sup>2</sup> (**Best Execution**). Where relevant, Orders will also be executed in line with any instructions and constraints placed on the Order by the Client.

- (c) In other situations, where a presumption exists that there is no legitimate reliance, such as a request for a UBS price, we have confirmed through a detailed review of our flows that although UBS will always seek to provide competitive prices, those services will not be subject to Best Execution requirements.

## 3 Application

### (a) Worked Orders:

- (i) **In scope:** Best execution will apply:
- (A) when UBS accepts an instruction to "work" an Order, (received through either voice or electronic channels);
- (B) where Orders are given with instructions to target a specific benchmark - for example requesting the VWAP benchmark over a defined period - within the constraints placed on the Order by the Client.
- (C) where a Client asks for a "block price" in a situation where the Client relies solely on UBS to execute it;
- (D) any electronically submitted Order to UBS where the Client relies solely on UBS to execute it;
- (E) Orders with an instruction to execute it using an execution algorithm.
- (ii) **Out of scope:** Best Execution requirements will not apply when a Client asks for a "UBS Principal Price"

### (b) Direct Market Access:

- (i) **In scope:** Best execution will apply to Orders sent via Direct Market Access where the primary factor is speed.

## 4 Order Handling

- (a) The Execution Factors for any Order to which Best Execution requirements apply are price, cost, speed of execution, likelihood of execution, speed of settlement, likelihood of settlement, size, nature 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 (without limitation) the characteristics of the Client, the Order, the Financial Instrument the subject of the Order and execution venue.

- (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. The assessment of these considerations will determine the appropriate interaction with the market.

- (c) By way of 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 option, the approach may be to deprioritise speed as an Execution Factor and interact more passively with the market. This is because liquidity on some 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. Specific Client Instructions

## 5 Specific 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 follows those 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 discussed in the section above.

- (b) Instructions may be given on an order-by-order basis, e.g. limits, contingencies, benchmarks, venue selection, At-Best and advanced order types.

- (c) "At Best" Orders require the broker to exercise their judgment when executing the Order in order to achieve the best result for the Client in the circumstances.

- (d) Many exchanges offer advanced order types such as stops,

<sup>1</sup><https://www.sfc.hk/edistributionWeb/gateway/EN/circular/doc?refNo=18EC7>

<sup>2</sup> <https://www.mas.gov.sg/regulation/notices/notice-sfa-04-n16>

stop limits, contingent orders, iceberg and other instructions to be entered directly into the exchange. Clients should be aware that in the context of such native exchange order types, once entered, they will be executed in the manner prescribed by that exchange without UBS' ability to influence the execution further.

Any parameters or instructions given to UBS by the Client should be clear and specific: for example a Client may ask for the trade to be worked over a set time period i.e. the next 5 minutes.

- (e) Client instructions (or amendments thereto or cancellations thereof) will only be effective if and when explicitly acknowledged by UBS. Clients are solely responsible for informing UBS of any instructions, preferences or changes thereto.

## 6 **Block Trading & call-around-market:**

- (a) Exchange traded derivatives are generally specific to a particular exchange. However some exchanges permit the execution of an Order to be agreed outside of the central order book (COB) on condition that certain parameters are met, e.g. minimum block thresholds (block size limits and price range). In many such instances, an active "call-around-market" aside the COB has emerged. For the purpose of Best Execution, such a call-around-market is considered an execution venue.
- (b) Where an order meets the relevant exchange and product block trading threshold, a Client may elect to execute a block trade (either on a trade by trade basis or as a standing instruction). This is a bilaterally negotiated agreement that occurs outside of the COB, the details of which are then posted to the exchange for registration and clearing purposes. If a Client wishes to trade on a bilateral basis with UBS they may request a block quote from UBS which will be a house principal risk price (Best Execution will not apply); alternatively the Client may ask UBS to act as its executing agent in sourcing an aggregate quote from competing market makers. In the latter case, the quote will be an aggregate of competing quotes from appropriate liquidity providers (which may include the UBS principal price) identified by UBS with a view to achieving the best price for the Client.
- (c) Where no specific instruction is given, UBS traders will exercise their judgment in light of the relevant Execution Factors and Execution Criteria to secure the best result for the Client. This may entail, for example, choosing to execute the Order on the COB or on the call around market.
- (d) Another example could be where a Client wishes to buy 1000 UBS calls and the COB shows only 50 lots on the offer the UBS sales trader may decide to look for alternative liquidity to get the full order size executed. Equally, the decision to execute on the call around market can be driven by other execution principles such as price, likelihood of execution and speed, depending on the relevant Execution Criteria.

# Disclaimer

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