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

Product general procedure – equity finance



# Product general procedure – Equity Finance

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

## 1 Purpose

- (a) This document is a supplement to our Hong Kong and Singapore Order Handling and Execution Policy (**Policy Information**) available at: <https://www.ubs.com/global/en/investment-bank/regulatory-directory/equities-bestexecution-hk.html>
- (b) Capitalised terms not defined in this document shall have the same meaning as in the Policy Information document.

## 2 Scope

- (a) The UBS Global Equity Finance (**GEF**) 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) Exchange Traded Funds: Portfolios of assets, usually index replicating;
  - (ii) OTC and Listed Derivatives over a single stock or a basket of stocks, (both fixed term and daily reset);
  - (iii) Exchange for physicals: Portfolios of stocks traded with Clients against hedges in related futures and forwards; and
  - (iv) 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 GEF flows with a view to identifying those 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.
- (c) We have concluded that in the context of GEF 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 Clients may rely legitimately on UBS to protect their interests, the delivery of those services will be subject to the best execution guidelines (**Best Execution**) set out by the Securities and Futures Commission (SFC)<sup>1</sup> and the Monetary Authority of Singapore (MAS)<sup>2</sup>.
- (e) Within GEF we have determined that Best Execution will apply primarily when one of the primary economic determinants of a transaction 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) Exchange traded funds; and
  - (ii) OTC and listed delta 1 derivativesWhen the execution of a hedge to a GEF product is undertaken by UBS's Cash and/or Exchange Traded

Derivatives (**ETD**) 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: <https://www.ubs.com/global/en/investment-bank/regulatory-directory/equities-bestexecution-hk.html>

## 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. In the context of Synthetic Prime Brokerage activity, the execution of the hedge may be carried out by the Cash Equities desk: please refer to the Cash Equities Product General Procedures at <https://www.ubs.com/global/en/investment-bank/regulatory-directory/equities-bestexecution-hk.html>
  - (a) for further details on the Cash Equities Best Execution procedures. In all other situations, the hedge is executed by GEF personnel.
  - (b) The following sections provide a general description of the way in which Best Execution obligations are addressed when GEF traders are responsible for executing Clients' Orders in relevant hedges including the situation where execution fills are provided by the trading desk as market execution is not practicable for unwinding a derivative position.

## 4 Order Handling

- (a) The Execution Factors for any Order are price, cost, speed of execution, likelihood of execution, speed of settlement, 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 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 relevant GEF trader will consider all relevant Execution Factors in light of the Execution Criteria. The assessment of these considerations will determine the appropriate interaction with market.
- (c) Examples:

<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>

- (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, in other circumstances, time and certainty of execution may increase in relative importance to the potential detriment of price.

## 5 Specific Instructions

- (a) Where the Client provides specific instructions in relation to a particular Order it will be executed in accordance with those instructions. To the extent that UBS accepts and follows those instructions, UBS will have satisfied any Best Execution requirements in relation to those elements of the Order subject to such instructions. UBS's Cash and/or ETD desks will provide execution strategies, when the execution of a hedge to a GEF 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.
- (b) Some instructions may be set as ongoing default trading preferences (e.g. crossing and venue instruction). Other instructions will be given on an order-by-order basis (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.

## 6 Smart Order Router

- (a) Where accessing markets electronically, UBS's routing decisions, including those processed within our algorithms, are predominantly made by the UBS Smart Order Router (SOR) where appropriate.
- (b) 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. Where Clients choose to be exposed to UBS liquidity sources, we preference UBS liquidity sources when consistent with our best execution obligation.

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