



UBS Securities Asia Limited
UBS Securities Hong Kong Limited

Two International Finance Centre 52/F,
8 Finance Street
Hong Kong

UBS Securities Pte. Ltd.

9 Penang Road
Singapore 238459

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

Product general procedure – cash equities



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

Product general procedure – cash equities

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

1 Purpose

- (a) This document supplements our Hong Kong & Singapore Order Handling and Execution Policy (the **Policy Information Documents**) 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 Documents.

2 Application of Best Execution to UBS Cash Equity Services.

- (a) The UBS Cash Equities business provides a range of methods of execution to Clients. These are broadly split into three distinct categories:
 - (i) Worked Orders, representing traditional high touch Sales Trading and Trading services;
 - (ii) Portfolio Trading, which is the execution of baskets of stocks;
 - (iii) Electronic Trading – Equities (**ET**), which is the business of providing access for clients to markets via algorithms and direct market access.
- (b) In the context of these services, there will be a number of instances where UBS Cash Equities will be executing Orders on behalf of our Clients where such Clients may be legitimately relying upon us to look after their interests. In such circumstances, the delivery of those services will be subject to the best execution guidelines issued by the SFC¹ & by the MAS². Orders will also be executed in line with any instructions and constraints placed on the Order by the Client.
- (c) In other situations, particularly in the context of quote-driven activity where a presumption exists that there is no legitimate reliance, a detailed review of our flows has confirmed that although UBS will always seek to provide competitive prices, these will be UBS' prices and those services will not be subject to best execution requirements.

3 Scope

- (a) **In scope:** Best execution will apply:

- (i) when UBS (including the Worked Orders and Portfolio Trading desks) accepts an instruction to “work” an Order via the worked order desk, as UBS will be exercising discretion as to how to execute that Order on the Client's behalf;
- (ii) where a Client is trading an equity derivative to the extent that the hedge attained by UBS drives the price of the derivative with the Client;
- (iii) to Algorithmic Orders placed with UBS via ET and Orders sent via direct market access (DMA). This is regardless of whether, while executing the Orders, the Order interacts with House liquidity, or where the exposure is being gained via an equity derivative.

- (b) **Out of Scope:** Best execution will not apply:

- (i) to “Facilitation” trades, where a Client requests UBS AG London Branch, acting as Principal, to commit capital and give our best price or to guarantee an agreed benchmark, except where the trade relates to the execution of a clean-up³ or odd lots and the Client has provided UBS with their standing agreement for UBS to facilitate the execution of clean-ups and odd-lots;
- (ii) where UBS is distributing a Block position; or
- (iii) to Risk Portfolios where UBS bids on portfolios of stocks as House, whether on a fully disclosed or blind basis, or whether UBS is the sole quote or among multiple quotes. These prices will be UBS's own risk prices and will not be subject to best execution requirements.

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, likelihood of settlement, speed of settlement, size, nature and any other consideration relevant to the execution of an Order such as qualitative factors if applicable. 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

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

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

³ For non-board lots and for cleanups defined as: 5% or less of order size, or less than or equal to USD 100,000 notional.

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) For 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 instrument, the approach may be to deprioritise speed as an Execution Factor and interact more passively with the market. This is because liquidity on the lit 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.
- (d) A further example could be where a Client is seeking to execute an Order of smaller size - for example 3% of the average daily turnover - over the course of the day. Given the small size of the order relative to the liquidity, the Client's expectation is to ensure the completion of the Order; likelihood of execution would therefore be an important Execution Factor. As there is ample time to execute the Order with available liquidity, speed would be considered less important while price and cost would continue to be important Execution Factors. A consideration of the Execution Factors against the Execution Criteria in this case may therefore result in a more passive execution strategy where a lower participation rate may be used to reduce any market impact and maximise the price obtained for the Client.

5 Specific Client 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 accepts and follows Client 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, as set out above.
- (b) Some instructions may be set as standing default trading "preferences" which may include preferences on:
 - (i) accessing a market via equity derivatives or by taking physical delivery;
 - (ii) being exposed to different kinds of liquidity opportunities arising from UBS's Client and House liquidity, e.g. via UBS PIN;
 - (iii) Execution venue(s), types.
- (c) Other instructions may be given on an order-by-order basis, (e.g. limits, benchmarks, participation rates, and sensitivity of order.

- (d) For example, a Client may specify all venues or 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 venue although best execution will apply, where relevant, in relation to other aspects of the Order not covered by that instruction.
- (e) Instructions relating to manual orders (Worked and Portfolio Trades) are not deemed to have been accepted until explicitly acknowledged as such by the relevant UBS sales trader. The Client and/or sales trader may, in most situations amend instructions (e.g. such as limit, benchmark, participation rate and algorithm) throughout the life of the Order prior to execution. Such amendments or instructions, received from clients on manual orders (Worked and Portfolio Trades) are only effective when explicitly acknowledged by the relevant UBS sales trader/trader.

6 Smart Order Routing

- (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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