

# MiFID II Top Five Venue Reporting Commentary

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## Introduction

The Markets in Financial Instruments Directive (MiFID II) requires investment firms to summarise and make public, on an annual basis, details relating to its trading activities over the preceding year across a range of financial instruments.

Firms are required to report the top five execution venues for trades they have executed themselves (for example on an exchange or trading facility, or with a market counterparty), in addition to the top five entities where the firm has elected to place the order with another firm for execution.

There is an associated document entitled "MiFID II Top 5 Venue Reporting Table" which contains detailed analysis by instrument type.

## Requirement of the Directive

Article 3 (3): Investment firms shall publish for each class of financial instruments, a summary of the analysis and conclusions they draw from their detailed monitoring of the quality of execution obtained on the execution venues where they executed all client orders in the previous year. The information shall include:

- A. An explanation of the relative importance the firm gave to the execution factors of price, costs, speed, likelihood of execution or any other consideration including qualitative factors when assessing the quality of execution;**

### General

The relative importance of each of these factors within our dealing process will vary depending upon a number of criteria, namely:

1. The investment intent of the investment manager who created the order.
2. The characteristics of financial instruments that are the subject of that order; and
3. The characteristics of the brokers and/or execution venues to which that order can be directed.

Generally, order characteristics vary and market conditions are never constant. The relative importance of the execution factors is therefore variable. That said, total consideration (price and cost), size and certainty of execution are generally the most relevant factors when executing orders.

Where an instrument is less liquid, then likelihood of execution becomes a more important consideration. Another factor relevant to best execution is counterparty risk, particularly in the case of instruments which are not settled by delivery versus payment. Under this scenario, our assessment of counterparty credit risk may impact on our selection of who we trade with.

HSBC Global Asset Management (UK) Ltd (AMEU) regularly reviews the effectiveness of execution arrangements and policies. In this context, AMEU regularly reviews execution quality achieved by selecting brokers/counterparties or execution venues for clients. In particular, information provided by the brokers/counterparties or respective execution venues about the execution quality of orders is taken into account.

### Equities – Shares & Depositary Receipts

Total consideration (price and cost) is the primary execution factor that governs the majority of activity, with other factors being prioritised as demanded by the characteristics of the order(s) in question and prevailing market conditions.

### Exchange Traded Products

As for equities

### Contracts for Difference

As for equities

### Debt Instruments (Bonds)

In addition to Total consideration, certainty of execution i.e. efficient sourcing of available liquidity, broker/counterparty performance and relative positioning becomes the more dominant execution factor for fixed income securities, particularly for credit and where debt securities are less liquid.

### Debt Instruments (Money Market)

As for Bonds

### Interest Rate Derivatives (Options and Futures admitted to trading on a trading venue)

As for equities

### Currency Derivatives (Swaps, forwards, and other currency derivatives)

In addition to total consideration, certainty of execution (e.g. efficient sourcing of available liquidity) and counterparty credit assessment are typically the more dominant execution factors.

### Securitised Derivatives

As for equities

### Equity Derivatives (Options and Futures admitted to trading on a trading venue)

As for equities

### Credit Derivatives (Other Credit Derivatives)

This refers to mortgage To Be Advised (TBA) transactions. Priority is generally given to the bid/offer and the roll spread.

### Other Instruments

Other instruments largely refers to collective investment schemes where price is determined daily. Timely and efficient execution to the Net Asset Value (NAV) of the fund is the primary factor.

#### **B. A description of any close links, conflicts of interests, and common ownerships with respect to any execution venues used to execute orders;**

AMEU executes orders with affiliates within HSBC Group. All such activity is transacted at arm's length and on prevailing market terms.

AMEU does not own any execution venues, however investors may legitimately hold equity and/or debt positions in financial organisations including brokers, venues and other operators of financial markets infrastructure.

### Currency Derivatives (Swaps, forwards, and other currency derivatives)

A high proportion of AMEU currency derivative activity is transacted at arms-length solely with HSBC Global Markets. The majority of the activity applies to a small number of portfolios and relates to the hedging of portfolio exposure back to their base currency.

### Equity Derivatives (Options and Futures admitted to trading on a trading venue), Interest Rate Derivatives (Options and Futures admitted to trading on a trading venue)

A high proportion of activity is transacted at arms-length with HSBC Global Markets as clearing broker for these type of instruments.

#### **C. A description of any specific arrangements with any execution venues regarding payments made or received, discounts, rebates or non-monetary benefits received;**

AMEU has no specific arrangements with any execution venues regarding payments made or received, discounts, rebates or non-monetary benefits.

#### **D. An explanation of the factors that led to a change in the list of execution venues listed in the firm's execution policy, if such a change occurred;**

Brokerage firms remain on our list of execution venues subject to an authorisation and ongoing monitoring process, which includes, but is not limited to, the broker's credit worthiness and financial stability, a review of the performance of execution services provided by the broker, the brokers coverage of and access to markets and liquidity, and the broker's ability to trade effectively on our clients' behalf.

#### **E. An explanation of how order execution differs according to client categorisation, where the firm treats categories of clients differently and where it may affect the order execution arrangements;**

All AMEU customers are categorised as Professional, and all orders are treated equally.

#### **F. An explanation of whether other criteria were given precedence over immediate price and cost when executing retail client orders and how these other criteria were instrumental in delivering the best possible result in terms of the total consideration to the client;**

Not applicable. AMEU does not trade retail client orders.

#### **G. An explanation of how the investment firm has used any data or tools relating to the quality of execution, including any data published under Delegated Regulation (EU) 2017/575 [RTS 27];**

AMEU uses independent TCA (transaction cost analysis) providers to support our monitoring of the quality of execution obtained on the execution venues where we execute/place for execution client orders.

#### **H. Where applicable, an explanation of how the investment firm has used output of a consolidated tape provider**

Not applicable. There are currently no consolidated tape providers in Europe.

The data above is based on execution data in the period from 1<sup>st</sup> January 2018 to 31<sup>st</sup> December 2018 inclusive.

The disclosure of information on execution venue selection (also known as RTS 28 disclosure) for HSBC Global Asset Management (UK) Ltd. on this website, [www.assetmanagement.hsbc.co.uk](http://www.assetmanagement.hsbc.co.uk) (the 'Site'), is subject to the following: HSBC Global Asset Management (UK) Ltd. provides the data on this Site in order to meet its regulatory requirements, which require this data to be made available to the public. HSBC Global Asset Management (UK) Ltd. does not permit any third party to sell the data published on this Site without prior agreement.