Order Handling and Best Execution Policy SMBC Brussels

1. Order Execution

a. Purpose

This document is designed to inform you, the client, on how transactions are executed to provide a general understanding of our dealing arrangements per product type in line with the Best Execution requirements as defined in MiFID II and based on the client classification for which you have received a notification letter from the Bank.

Best Execution applies to Professional Clients of the Bank regardless of whether they are an Elective Professional Client or per se Professional Client and does not apply to business conducted with Eligible Counterparties. The Bank does not undertake business with Retail clients.

Best Execution is in relation to the following products:

- Credit;
- Rates; and
- Derivatives.

b. What is Best Execution

Best Execution is the requirement to take all sufficient steps to obtain, when executing orders, the best possible result for the client considering various execution factors relevant to the execution of an order.

The execution factors are in general:

- Price - the price at which a financial instrument is executed;
- Costs - the costs that will be payable by the client as a result of the execution of the transaction;
- Speed and Settlement - the speed of execution and settlement of the order;

- The likelihood of Execution and Settlement - the likelihood that the transaction will be executed and settled; and
- Nature of the transaction and any other consideration relevant to the execution.

In coming to your determination with regards to the priority of such execution factors, a variety of criteria may be taken into account which may include, but are not limited to, the type of financial instrument that is the subject to the order, the type of order and its specific characteristics, such as the size of the order or the liquidity of the underlying, as well as the execution venues to which the order could be directed. Appropriate consideration must be made based on a transaction-by-transaction basis and may vary per asset class.

c. When does Best Execution apply

The obligation to provide best execution will always arise in circumstances where the Bank receives instructions from a client to execute a transaction on their behalf, which gives rise to contractual or agency obligations owed by the Bank to the client. Such contractual or agency obligations will arise where we are required to exercise discretion in relation to the execution of a client instruction or order.

The best execution obligation may also apply when the Bank deals on its own account, acting in a principal capacity, and a client is placing a legitimate reliance on us to protect their interest in relation to the execution of a transaction.

Where we receive specific instructions from you in relation to every aspect of a transaction, such that we have no discretion over how an order is executed, we will execute as far as reasonably possible the transaction in accordance with those instructions. Specific instructions may prevent us from taking some or all of the steps set out in the Policy that are designed to obtain best execution. By following client specific instructions, we will satisfy our obligation to provide best execution in relation to the order. In respect of those aspects of execution which are not covered by the specific instruction, we will process the order in accordance with this section.

d. Execution Venues

When executing your transactions or when placing your orders with (or transmitting your orders to) other entities (including affiliates) to execute, the Bank will take all sufficient steps to obtain on a consistent basis the best possible result.

The factors affecting choice of execution venue include, but are not limited to financial instrument, price, market liquidity, the size and nature of the order, credit and settlement risk, realized performance (latency, liquidity, price improvement, and whether a client has informed us they do not consent to their orders being executed outside of a regulated market or MTF.

Our choice of venue may be constrained by the fact that there may be only one venue where an order can be executed due to the nature of the instrument, your order, or your individual requirements.

Venues:

- Regulated Markets, Multilateral Trading Facilities and Organised Trading Facilities;
- The Bank and its Affiliates where we internalise orders (either on a risk or as a riskless principal basis);
- Other exchanges that are not Regulated Markets;
- Systematic Internalisers;
- Market makers or other liquidity providers; and
- Non-EEA entities performing a similar function to any of the above.

Execution venues can include venues of which we are direct members or participant and venues that we access through third party brokers or dealers.

The Bank is not a member of any exchanges or other regulated markets. For the purposes of ensuring efficiency and access to a wider range of markets, particularly in relation to Japanese equities, the Bank has entered into agreements with third party brokers, including SMBC Nikko Securities Inc. (“SMBC Nikko”). In addition, the Bank may be a member of MTFs and transact with a couple of third parties who may be an OTF or Systematic Internaliser. Accordingly, the "execution venues" referred to herein are SMBC Nikko, MTFs, OTFs, Systemic Internalisers and other third-party brokers.

Where the Bank has access to multiple venues for execution, the Bank will select the most appropriate execution venue.

e. Aggregation and allocation of orders

The Bank may aggregate orders of (i) multiple clients and (ii) one or more clients and its own orders, where the Bank believes the aggregation to be fair and equitable taking into account received, any relevant instructions received from the client, the relative sizes of the orders and the current liquidity of the market for the relevant financial product, and the Bank’s obligations to act in the interests of its clients and to avoid conflicts of interest.

Where the Bank executes an aggregated order, unfair preference will not be given to own account orders, or to any client, in the subsequent allocation procedure. Where a client order and an own account order have been aggregated, priority will be given to satisfying the client order if the aggregate total of all orders cannot be satisfied, unless the Bank can demonstrate on reasonable grounds that without the Bank's participation it would not have been possible to execute those orders on such favourable terms, or at all.

f. Monitoring and Notification

The Bank will monitor the effectiveness of its execution arrangements and Order Execution Policy and assess on a regular basis whether the execution venues it has selected provide for the best possible result for orders it executes on your behalf.

The Bank will also notify you of any material changes to its order execution arrangements; such notification may be made via the Bank website.

g. Asset Class Information

i. General

The Bank owes a duty of best execution when executing Client Orders. We consider ourselves to be in receipt of an order where an execution instruction is given to us that give rise to contractual or agency-like obligations to client. Specifically, this will be the case where clients commit to a trade that is not immediately executable, leaving discretion with us as to the manner of execution and exact terms of the resulting transaction; and the execution can be booked to the clients account, without the need to re-confirm the price, size or any other factor(s) with you; or where we execute an order usually on a riskless principal basis on their behalf.

Best execution obligations are unlikely to apply where clients have asked us for a quote (RFQ). However, this should be reviewed on a transaction-by-transaction basis depending on the circumstances of the request. Furthermore, where clients provide us with a specific instruction, such as the time an order should be placed, to the extent that we follow such instructions, we have satisfied any best execution requirements with respect to that aspect of the order.

ii. Credit

Typically, executions in Credit securities are undertaken via two main approaches, via a resting order or through an RFQ.

When seeking to execute a client resting order the Bank will seek to fill their transaction as soon as possible, at the target price or a better price, whilst applying a mark-up or spread as compensation for our work and (residual) risks. This mark-up or spread will be within a range of what we consider reasonable for the product type, tenor, and size of the trade.

The most important execution factor for our clients will be the price the relevant financial instrument is executed at. However, in more illiquid markets, the primary execution factors may vary, as such, likelihood of execution may become the primary execution factor. Subject to any Specific Instruction, the following provides an example of the execution factors prioritisation that may be applied:

1. Price;
2. Likelihood of Execution;
3. Size;
4. Costs;
5. Speed; and
6. Other Considerations.

As we trade Credit securities on a principal basis often, the execution venue will usually be the Bank or our affiliates. Below, we list the other execution venues that we use frequently to hedge our own market risk, or as a riskless principal, we may use them to fill a resting order that you have left with us.

- Bloomberg.

iii. Rates

Typically, executions in Rates securities are undertaken via two main approaches, via a resting order or through an RFQ. Most trading in the market for Rates securities instruments happens through RFQ.

When seeking to execute a client resting order the Bank will seek to fill their transaction as soon as possible, at the target price or a better price, whilst applying a mark-up or spread as compensation for our work and (residual) risks. This mark-up or spread will be within a range of what we consider reasonable for the product type, tenor, and size of the trade.

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1. Price;
2. Likelihood of Execution;
3. Size;
4. Costs;
5. Speed; and
6. Other Considerations.

As we always trade Interest Rate Products on a principal or riskless principal basis, the execution venue will usually be the Bank or our affiliates. Below, we list the other execution venues that we use frequently to hedge our own market risk, or as a riskless principal, we may use them to fill a resting order that a client has left with us.

- 360T;
- Bloomberg; and
- LSEG (Refinitiv).

iv. Derivatives

The Bank arranges derivative transactions between its clients and approved group booking entities and does not execute derivative transactions on a principal basis. Thus, the provision of Best Execution will be a rare occurrence.

As the Bank operates in a competitive market for the execution of client RFQ's in derivatives, the expectation is that clients have access to multiple dealers and pricing sources or alternatively employ independent benchmark advisers to assess market prices and hence are in competition. Best execution obligations are unlikely to apply where clients have asked us for a quote, as we take the view that there is no legitimate reliance being placed on us to meet the relevant best execution requirements; however, in all cases we endeavour to provide the most competitive pricing achievable.

The markets for vanilla and complex interest rate, foreign exchange, cross currency, and commodity derivatives are in most instances well established and competitive, whereby multiple market participants will stand ready to respond to clients' RFQ/reverse inquiry or requests for proposal (RFP). Such processes are conducted via direct requests through meetings, voice, email, or electronic messaging.

In relation to RFQs or reverse inquiries (e.g. the client approaches the Bank to provide banking services), where we provide quotes or negotiate a price with clients on request, we will not presume to be receiving a Client Order where best execution will apply.

When transacting on an RFP basis, clients will usually, after an initial broad contest, choose a couple of providers to discuss the transaction in detail. This process will eventually lead to a (potentially exclusive) quote based on the parameters requested by the client. The time between the initial client contact and the quote varies from a couple of days to a very protracted period. As with RFQ/reverse inquiries, if the Bank provides quotes or negotiates a price with you based on your requirements, we will not presume to receive a Client Order where best execution will apply.

Furthermore, where clients provide us with a Specific Instruction, such as the time an order should be placed, to the extent that we follow such instructions, we have satisfied any best execution requirements with respect to that aspect of the order.

The Bank does not charge a commission but we do impose a mark-up/down or spread on where the relevant group entities execute trades in the market and where we execute them with clients (there is no agreed consistent mark up and reasonableness is based on a number of factors such as, but not limited to, time of day, market conditions, order size, maturity of the transaction, counterparty credit risk).

When seeking to execute a resting order the Bank will seek to fill the transaction as soon as possible, at the target price or a better price, whilst applying a mark-up or spread as compensation for our work and (residual) risks. This mark-up or spread will be within a range of what we consider reasonable for the product type, tenor, and size of the trade.

An important execution factor for our clients will be the price the relevant financial instrument is executed at. As part of the price finding process for Derivative transactions, we will also take into consideration a couple of other execution factors such as liquidity of the underlying, maturity of the transaction, counterparty credit risk, and platform/technology dependencies.

However, depending on the complexity of the product, client engagement in creating the product/transaction and bespoke nature of the transaction, the primary execution factors may vary, with likelihood and speed of execution potentially being a more key factor than price.

Subject to any Specific Instruction, the following provides an example of the execution factors prioritisation that may be applied:

1. Price;
2. Likelihood of Execution;
3. Size;
4. Costs;
5. Speed; and
6. Other Considerations.

The Bank does not trade derivatives on a principal basis but arranges them between the clients and relevant affiliates. The execution venue will usually be the Bank's affiliates, who will look to hedge their risks through a variety of trading venues including brokers, exchanges, and other dealers, such as:

- 360T;
- Bloomberg; and
- LSEG (Refinitiv).