

Internal Use Only

# Best Execution and Order Handling Policy

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Compliance

July 2023

Daiwa Capital Markets Europe Limited



**Daiwa**  
Capital Markets

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## Version Control

Version	Date	Author(s)	Description
5	July 2019	Ron Akram	Refreshed
6	September 2020	Ron Akram	Refreshed for MiFID II Audit refinement
7.0	January 2021	Emily Caine	Transferred content to standard Daiwa template. Amended wording to reflect front office ownership.
8.0	March 2022	Emily Caine Best Execution Governance Forums	Annual review and update
9.0	July 2023	Rebecca Gooda	Annual Review – ownership moved back to Compliance minor updates only; notably removal of duplicative content, further detail added around legitimate reliance, the four-fold test and RFQs

## Committee Approvals & Release Control

Version	Date	FOMC	CRC	ExCo	BRC	Board
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\*Policy reviewed by the Best Execution Committee and Business specific appendices approved by respective business heads



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# 1. Introduction

This document sets out the policy of Daiwa Capital Markets Europe Limited (DCME) with regards to best execution and order handling under the provisions of UK MiFID, and the procedures implemented to ensure these requirements are met.

## 2. Document Administration

### 2.1. Purpose

This policy intends to provide details of DCME's policy on best execution and order handling, as well as the procedures implemented by the first line of defence (1LoD) in order to meet these requirements.

### 2.2. Scope

The policy applies to DCME and all branches and subsidiaries when executing orders for clients classified by DCME as Professional Clients to whom DCME has contractual or agency obligations and only to transactions in UK MiFID Financial Instruments as set out in [Part 1 of the Regulated Activities Order](#)

### 2.3. Governance

#### 2.3.1. Ownership

This document is owned by DCME's Chief Risk & Compliance Officer

#### 2.3.2. Review

This document will be reviewed and updated on at least an annual basis, or when required following material changes.

#### 2.3.3. Approval

This document will be approved by DCME's Compliance & Risk Committee. It will also be reviewed by the Best Execution Committee and the Business specific appendices approved by the respective business heads

### 2.4. Definitions

Definitions are provided as and when required throughout the document.

### 2.5. Responsibilities

#### 2.5.1. DCME Front Office

DCME's front office (1LoD) is responsible for ensuring that the requirements of this policy are met when dealing with their clients. Specifically, this includes:

- Establishing the strategy for obtaining the best possible result for the execution of client orders;
- Determining the relative importance of best execution factors and establishing the process by which they determine the relative importance of these factors so that they can deliver the best possible result to their clients;



- Producing and maintaining the list of execution venues that they consider enable DCME to obtain the best possible result on a consistent basis;
- Where orders are transmitted to, or placed with, other entities, for ensuring that such entities shall have execution arrangements that enable DCME to comply with best execution;
- Establishing procedures and arrangements which provide for the prompt, fair and timely execution of client orders;
- Establishing the procedure and process used to analyse the quality of execution;
- Establishing the process of monitoring and verifying that the best possible results were obtained for clients; and
- Monitoring the effectiveness of its execution arrangements and assessing on a regular basis.

### 2.5.2. DCME Compliance

It is the responsibility of Compliance Advisory and Surveillance teams to:

- conduct surveillance and thematic desk based assurance reviews of best execution arrangements as may be required
- Investigate any client complaints as well of escalations of issues/concerns from the business related to best execution
- Attend the quarterly best execution quarterly committee and provide 2LOD challenge regarding best execution and ensure any relevant matters are raised and appropriately escalated.

### 2.6. Communication & Storage

This policy is stored on the Compliance Documentation Register.

### 2.7. Reporting & MI

Any issues will be escalated as appropriate via the DCME governance structure and reporting framework, which includes the quarterly best execution governance forum.

### 2.8. Related Documents

- Departmental best execution procedures
- External Facing Best Execution Policy

## 3. Best Execution Policy Provisions

### 3.1. Best Execution Obligation

UK MiFID requires DCME to take all *sufficient* steps to obtain the best possible result for our clients when they are placing legitimate reliance on the firm to protect their interests. This is:

- When we are executing orders on their behalf; or
- Transmitting or placing orders to other entities (including our affiliates) for execution.



To do this, DCME must take into account the following *best execution factors*:

- Price;
- Costs;
- Size;
- Speed;
- Likelihood of execution and settlement; or
- Any other consideration relevant to the execution of the orders.

### 3.2. Client Scope and Types of Instrument

The policy applies to clients classified by DCME as *professional clients* to whom DCME has contractual or agency obligation and only to transactions in UK MiFID Financial Instruments as set out in [Part 1 of the Regulated Activities Order](#).

### 3.3. Legitimate Reliance

To determine whether a client is placing legitimate reliance on DCME in relation to a specific transaction, DCME must consider the four-fold cumulative test. The elements of the four-fold test must be considered on a case-by-case basis for each transaction. Blanket exclusions e.g. for a particular client / product are not permitted. The four-fold cumulative test to determine whether reliance is placed upon DCME is as follows:

1. Which party initiates the transaction:
  - Where the client initiates the transaction, it is less likely that the client will be placing reliance on
2. DCME. Market practice and the existence of a convention to 'shop around';
  - Where there is a practice in a particular market that clients would obtain quotes from various sources, it is less likely that the client will be placing reliance on DCME
3. Relative levels of price transparency within a market;
  - In circumstances where pricing information is transparent and it is reasonable that clients have access to such information, it is less likely that the client will be placing legitimate reliance on DCME
4. Information provided by DCME and any agreement reached.
  - Where any agreements or arrangements with clients do not indicate or suggest that an understanding has been reached that clients will place any legitimate reliance on us.

If circumstances demonstrate that a Professional Client places legitimate reliance upon DCME, then an obligation of best execution will be owed by DCME to that client. Where the consideration of the above factors concludes that a client is not placing legitimate reliance on DCME, then the obligation to provide best execution will not apply.

#### 3.3.1. Request for Quote

When DCME provides quotes or negotiates a price with clients on request (i.e. dealing on a request for quote or RFQ basis), the starting assumption is that there is no legitimate reliance by the client and therefore Best Execution does not apply. DCME must however consider the four-fold test to identify any situations where clients may nevertheless be placing legitimate reliance on DCME.





### 3.4. Instruments-Specific Appendices

Application of best execution shall be customised depending on the class of *financial instruments* and types of the service provided. Therefore in accordance with this overarching policy, Front Office shall develop instrument specific policies and procedures. They shall be annexed to this policy as appendices.

### 3.5. Best Execution Policy Notice

To provide appropriate information on this policy to its clients, DCME is obliged to publish a *best execution policy notice* which explains the information clearly, in sufficient detail and in a way that can be easily understood, how orders are executed.

The *notice* shall be provided to clients in good time prior to the provision of the service.

The *notice* could be provided by means of a website, provided that following conditions are satisfied:

- The provision of that information in that medium is appropriate to the context in which the business between the firm and the client is, or is to be, carried on;
- The client must specifically consent to the provision of that information in that form;
- The client must be notified electronically of the address of the website, and the place on the website where the information may be accessed;
- The information must be up to date;
- The information must be accessible continuously by means of that website for such period of time as the client may reasonably need to inspect it.

DCME shall obtain the prior consent of its clients to the Notice.

### 3.6. Relative Importance of Best Execution Factors

Front office shall determine relative importance of *best execution factors* or at least establish the process by which they determine the relative importance of these factors so that it can deliver the best possible result to its clients. To determine them, these factors shall be referred to:

- The characteristics of the client including the categorisation of the client;
- The characteristics of the client order
- The characteristics of financial instruments that are subject of that order;
- The characteristics of the execution venues to which that order can be directed.

Where DCME acts on behalf of clients, the FCA emphasised that controlling *cost* incurred is integral to the best execution obligation. Based on the relative importance of the cost as one of the execution factors, front office needs to establish its own cost control mechanism.

The relative importance of *best execution factors* and the way how they are taken into account to obtain the best possible result shall be explained in the *notice*.

### 3.7. Execution Venues/Entities for Execution

This policy should include for each financial instrument the list of execution venues that Front Office consider enable DCME to obtain the best possible result on a consistent basis. Those possible execution venues include, as appropriate for each product: regulated markets, multilateral trading facilities, systematic internalisers, market makers and other liquidity providers (including DCME and its affiliates acting as principal). Following the



criteria below, Front Office shall document the the names of the execution venues they use. The execution venue can be DCME itself where DCME deals on its own account or internalises a client order. The list of the execution venues shall be included in the *notice*.

Where DCME does not execute orders, DCME may transmit or place orders with third party intermediaries for execution (including the affiliates and third country investment firms outside of the UK. For this purpose, this policy shall include for each financial instrument the list of the entities with which the orders are placed or transmitted for execution. Front office shall document the names of the entity they use. The list of the entities shall be included in the *notice*. Where DCME choose entities for execution rather than execute orders itself, DCME needs to make sure that such entities shall have execution arrangements that enable DCME to comply with best execution.

When selecting execution venues and/or entities for execution in respect of each class of financial instruments, Front Office shall consider best execution factors as well as qualitative factors such as clearing schemes, circuit breakers, scheduled actions or any other relevant considerations along with the relative importance of each factor they set. These factors and relative importance shall be explained in the *notice*. Information about these factors shall be consistent with the controls used by DCME to demonstrate it has achieved *best execution* in a consistent basis.

In the case of the Equity Division, Equity Management shall conduct an *annual execution broker review* based on the daily transaction costs analysis reports as well as monthly review reports in order to evaluate the performance of execution counterparties, memorialise their conclusions (which may be by email) and notify Compliance of the results

When Front Office determine their execution venues and/or entities for execution, DCME's own commission or fees charged to the client should not be taken into account. However, when they assess whether particular transactions fulfil its best execution obligation and where there is more than one competing venue/entity, DCME's own commission or fees shall be taken into account.

DCME will also take steps to not structure or charge DCME's commissions in such a way as to discriminate unfairly between execution venues. Where DCME charge a different commission or spread for execution on different execution venues, such difference shall reflect actual differences in the cost to DCME of executing on those venues. Where DCME applies different fees depending on the execution venues, DCME shall explain these differences in sufficient detail in order to allow the client to understand the advantages and the disadvantages of the choice of a single execution venue.

Choosing a single execution venue/entity for execution is allowed only where DCME is able to show that this provides the best possible result for the clients on a consistent basis and only where DCME can reasonably expect that the selected venue/entity will enable DCME to obtain results for clients that are at least as good as the result that could reasonably be expected from using alternative venues/entities. The reasonable expectation should be supported by relevant data published by these venues/entities or by internal analysis conducted by ourselves. DCME is not permitted to put its affiliates in a privileged position.

Where DCME invite clients to choose an execution venue, fair, clear and not misleading information shall be provided to prevent the client from choosing one execution venue rather than another on the sole basis of the price policy applied by the DCME.

Where it is possible that DCME may execute an order outside a trading venue, DCME needs to let the client know about that possibility. Where DCME transmits or places orders with an entity for execution and that entity may execute these orders outside trading venues, that possibility should also be indicated clearly. DCME shall provide information about the consequences, for example in relation to any counterparty risk arising from execution outside a trading venue and, upon client request, additional information about the consequences of this means of execution.

For instruments which are admitted to trading on trading venues, DCME needs to obtain prior express consent of its clients before executing their orders outside a trading venue. This could be done in respect of individual



transaction, but it is desirable that the consent is obtained in the form of the Terms of Business with the actual demonstration of consent which may be provided by signature in writing or equivalent means. Front Office need to obtain such consent where needed.

DCME will, on request, provide clients further details of the execution venues and entities for execution included in this policy.

Following the execution of a transaction on behalf of clients, DCME must inform the client of where the order was executed.

### 3.8. Execution Strategies

DCME shall establish the strategy for obtaining the best possible result for the execution of its client orders. This includes:

- The key steps DCME is taking to comply with best execution;
- How those steps enable DCME to obtain the best possible result.

Front Office shall establish its own strategies and the summary shall be written in the *notice*.

### 3.9. Where DCME Deals in OTC Products

Where DCME deals in OTC including bespoke products, Front Office shall check the fairness of the price proposed to the client by gathering market data used in the estimation of the price of such product and, where possible, by comparing with similar or comparable products.

### 3.10. Specific Instructions

Where a client gives DCME specific instructions, including specifying the characteristics of a bespoke product, either relating to an order or a particular aspect of an order, DCME shall execute so far as is reasonably possible in accordance with those instructions. However specifics of the instruction may prevent DCME from taking the steps that DCME has put in place to obtain the best possible result for the execution of clients' orders with respect to the elements impacted by such specific instructions. Notwithstanding this, where the client give a specific instruction which covers one part or aspect of the order, this will not release DCME from our best execution obligations in respect of any other part or aspect of the order that is not covered by such instructions.

In the absence of express instructions from clients DCME shall exercise its own discretion, having regard for the terms of its order in determining the factors that it needs to take into account for the purpose of providing the client with Best Execution.

Front Office shall never induce client to give a specific instruction where they reasonably know that an instruction to that effect is likely to prevent DCME from obtaining the best possible result for that client. Note that this does not prevent them from inviting a client to choose between some trading venues, provided that those venues are consistent with this policy.

In the *notice*, DCME shall indicate a clear and prominent warning that any specific instructions from a client may prevent DCME from taking the steps that it has designed and implemented in this policy to obtain the best possible result for the execution of those orders in respect of the elements covered by those instructions.

### 3.11. Client Order Handling

Where handling client order, front office shall establish its procedures and arrangements which provide for the prompt, fair and timely execution of client orders, relative to other client orders or the trading interests of DCME. Those procedures or arrangements shall allow for the execution of otherwise comparable client orders in accordance with the time of their reception by DCME.



As a general principle, DCME shall satisfy the following conditions when carrying out client orders:

- Ensure that orders executed on behalf of clients are promptly and accurately recorded and allocated;
- Carry out otherwise comparable client orders sequentially and promptly unless the characteristics of the order or prevailing market conditions make this impracticable, or the interests of the client require otherwise;

Where DCME is responsible for overseeing or arranging the settlement of an executed order, it shall take all reasonable steps to ensure that any client financial instruments or client funds received in settlement of that executed order are promptly and correctly delivered to the account of the appropriate client.

DCME shall not misuse information relating to pending client orders, and shall take all reasonable steps to prevent the misuse of such information by any of its relevant persons.

Front office shall establish its aggregation and allocation policy as well as its policy for publication of limit orders

In the case of a client limit order in respect of shares admitted to trading on a regulated market or traded on a trading venue which are not immediately executed under prevailing market conditions, DCME is, unless the client expressly instructs otherwise, to take measures to facilitate the earliest possible execution of that order by making public immediately that client limit order in a manner which is easily accessible to other market participants. Therefore, where front office considers this is not appropriate, they need to obtain clients' express consent. This could be done in respect of individual transaction, but it is desirable that the consent is obtained in the form of the Terms of Business with the actual demonstration of consent.

### 3.12. Tick Sizes

UK MiFID has prescriptive requirements around tick sizes. When a client sends DCME a limit order that does not meet the appropriate threshold, it will be rounded up/down to the correct tick size, depending on whether it is a buy or sell. Any adjustment will be done in the client's favour.

### 3.13. Demonstration of Best Execution

DCME shall be able to demonstrate to its client, at their request, that DCME have executed their orders in accordance with this policy.

DCME shall also be able to demonstrate to its competent authority, at its request, DCME's compliance with best execution.

To analyse the quality of execution, front office needs to establish the procedure and process used to analyse the quality of execution; this should be summarised and written in the *notice*.

Also front office shall establish the process of monitoring and verifying that the best possible results were obtained for clients; this should be summarised and written in the *notice*.

### 3.14. Monitoring and Review

DCME shall monitor the effectiveness of its execution arrangements including this policy and assess on a regular basis.

DCME shall assess whether the execution venues and the entities for execution included in the order execution policy provide for the best possible result for the client or whether they need to make changes to their execution arrangements, taking account of, inter alia, the information published by trading venues and entities for execution. This should be done by front office regularly by comparing and analysing relevant data available.

DCME shall review this policy, including its appendices, and its order execution arrangements at least annually.



In addition to annual review, front office shall monitor and assess whether a *material change* has occurred. A *material change* is a significant event that could impact parameters of best execution such as cost, price, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order. Where a material change has occurred and this affects DCME's ability to continue to obtain the best possible result for the execution of its client orders on a consistent basis using the venues and the entities included in this policy, front office shall consider making changes to the relative importance of the best execution factors in meeting *best execution*.

DCME shall notify clients of any material changes to its order execution arrangements or this policy; such notification may be made via the DCME external facing website.

### 3.15. Queries

Where a client makes reasonable and proportionate requests for information about this policy or best execution arrangements and how they are reviewed, front office shall answer clearly and within a reasonable time.



## Appendix 1: Cash Equities

### Aim

DCME endeavours to provide its equity clients with a high quality, efficient execution service.

This policy sets out how the firm will deal with orders so that clients can be confident that their interests are being properly served.

We consider the overriding objective of our Best Execution Policy to be that; over time our selection of the executing brokers, executing factors and executing venues will consistently obtain the best execution results for clients.

Where execution involves the transmission of orders to our affiliates and third parties, we will monitor results to ensure the same duty of care is applied to orders and that selected executing parties act in accordance with our client's best interest.

### Scope

Our best execution rules apply to professional clients only. We do not service retail clients and eligible counterparties remain outside remit.

This policy covers listed Asian, American and European Equities.

In most cases, where DCME receives a client order and executes or transmits for execution, DCME assumes to be acting on behalf of the client, however, where DCME receives a Request for Quote and a trade follows, DCME will assess whether the client has legitimate reliance on DCME in accordance with the four-fold cumulative test.

### Relative Importance of Execution Factors

DCME consider the following factors when executing orders. Each factor will vary in importance depending on the characteristics of the order in question. "It is important to recognise that we endeavour to measure Best Execution over the duration of the whole order, not necessarily on a tick by tick basis or even, in the case of multiple day orders, a day by day basis. In general, this is how we approach each factor:

#### 1. Likelihood of Execution and Settlement

Uncertainty in the areas of execution and settlement is not acceptable and should be avoided in our attempts to provide high quality, efficient execution service. Venues or counterparties that introduce this element of risk should not be used or the risks explained to clients.

#### 2. Price

On average, over the course of the order, compared to a suitable benchmark such as market volume weighted average price, last price or another reasonable benchmark chosen by the client.

#### 3. Costs

##### *Explicit Cost*

We do not vary our commission charges according to venue, only by geography. The predominance of trading on Primary exchanges and requirement to report off market crosses on exchange mean explicit costs tend to be constant across venues.



### Implicit costs

Result from how a trade is executed (immediately or worked over a period, in a block, as child orders sent to multiple different execution venues).

In theory a trade may appear more expensive in terms of explicit costs but may be less expensive when implicit costs are considered. For example if we work a large order over time, preserving the client's confidentiality and minimising market impact we may achieve the lowest total cost (and the best net price), The impact of implicit cost is difficult to quantify. As a result, ahead of a trade DCME make a judgement about the likely implicit cost of an execution strategy and take all sufficient steps to manage them. For example if sweeping alternative venues for marginal price improvements results in only small-lot child orders printing but alerts the market to the larger order it is reasonable to ignore the small lot price improvements in the alternative venues for the greater good of the parent order.

### 4. Speed

A majority of our Asian business is executed overnight in the region so speed from client to execution venue is interrupted given the time difference; we take the order and several hours later our chosen executing broker slices to the market.

Where orders are received in London morning time, for execution in markets immediately (that have not yet closed for the day), every attempt to transmit orders to our executing counterparties (and on to the market) promptly is made.

Equally, for business executed in the US (ETFs/ADRs/US listed Asian Issues) by our chosen broker, a similar attempt to transmit orders swiftly is made.

For European orders where we face live markets, we place all orders via FIX to our execution brokers, hence speed is hardly differentiated by venues/brokers.

### 5. Size

Size of order versus size of liquidity available in the market needs to be considered to ensure market impact is appropriate and will not adversely impact the execution outcome.

### 6. Nature of Order

Least impact, time constrained, any other factors such as time constraints and liquidity need also to be considered to ensure client's objectives are achieved.

Any specific client instruction that causes an order to deviate from our prescribed Best Execution Factors will be taken to have over-riden our Best Execution Obligations. This includes but is not limited to the use of our Direct Market Access service.

We do not typically aggregate client orders however this would be considered in certain circumstances where aggregation may be in the best interest of the clients. When such situations arise, this will be discussed with the clients ahead of any aggregation being performed.

### Affiliates, Counterparties and Venues

The following table details the affiliate and counterparties DCME chose to execute their Equity business through:

Country	Venue	Broker	3rd Party Broker
Australia	Australian Stock Exchange	Daiwa Capital Markets Hong Kong Limited (Daiwa HK)	ITG (Electronic Trading), Macquarie Group (Cash HK)



			and Program Trading), Forsyth Barr
	CentrePoint	Daiwa HK	ITG (Electronic Trading), Macquarie Group (Cash and Program Trading), Forsyth Barr
	Chi-X	Daiwa HK	Macquarie Group (Cash and Program Trading), Forsyth Barr
	Macquarie Dark	Daiwa HK	Macquarie Group (Cash and Program Trading)
China	Shanghai Stock Exchange	Daiwa HK	CICC / Shenyinwanguo
	Shenzhen Stock Exchange	Daiwa HK	CICC / Shenyinwanguo
	Hong Kong Stock Exchange	Daiwa HK	
India	Bombay Stock Exchange	Daiwa India	
	National Stock Exchange of India	Daiwa India	
Indonesia	Indonesia Stock Exchange	Daiwa Capital Markets Singapore Limited (Daiwa Singapore) (Cash execution handling), Daiwa HK (Booking office, PT handling)	Bahana Sekuritas
Japan	Tokyo Stock Exchange	Daiwa Securities Co. Ltd. (Daiwa Tokyo)	
	Nagoya Stock Exchange	Daiwa Tokyo	
	Sapporo Stock Exchange	Daiwa Tokyo	
	Fukuoka Stock Exchange	Daiwa Tokyo	
	DRECT	Daiwa Tokyo	
	SBI	Daiwa Tokyo	
	Osaka Digital Exchange	Daiwa Tokyo	
	Chi-X	Daiwa Tokyo	
Korea	Korea Stock Exchange	Daiwa Korea	
	KOSDAQ	Daiwa Korea	
Malaysia	Bursa Malaysia	Daiwa Singapore (Cash execution handling), Daiwa	Affin Hwang





		HK (Booking office, PT handling)	
New Zealand	New Zealand Stock Market	Daiwa HK	Craigs Investment Partners, Forsyth Barr
Pakistan	Karachi Stock Exchange	Daiwa HK	AKD Securities Ltd
Philippines	The Philippines Stock Exchange	DBP-Daiwa Capital Markets Phils	
Saudi Arabia	Saudi Exchange	BNP Paribas	
Singapore	Singapore Exchange	Daiwa Singapore	
Sri Lanka	Colombo Stock Exchange	John Keells Stock Brokers Pvt Ltd	
Taiwan	Taiwan Stock Exchange	Daiwa Cathay Capital Mkts Taiwan	
Thailand	The Stock Exchange of Thailand	Daiwa Singapore (Cash execution handling), Daiwa HK (Booking office, PT handling)	Thanachart Securities (Cash), UBS (Electronic Trading), Macquarie Group (Program trading)
Vietnam	Hochiminh Stock Exchange	Saigon Securities Inc	
	Hanoi Stock Exchange	Saigon Securities Inc	
American and Canadian Shares	Trading Venues/Market Makers and Liquidity Providers in the US and Canada	Daiwa Capital Markets America Inc. (Daiwa America)	RBC
European Shares	Trading Venues/Market Makers and Liquidity Providers in Europe		RBC Sanford C Bernstein Macquarie Bank Jefferies
Israeli Shares	Trading Venues/Market Makers and Liquidity Providers in Israel		Sanford C Bernstein Macquarie Bank
South African Shares	Trading Venues/Market Makers and Liquidity Providers in South Africa		Sanford C Bernstein Macquarie Bank

In rare occasions DCME and Daiwa affiliates might be execution venues where they provide liquidity or it matches clients' orders.

Where DCME choose an entity for execution, we will undertake appropriate due diligence and take steps to ensure that the entity is able to provide an appropriate standard of execution before selecting such entity.



Where Daiwa affiliates are chosen as an execution entity, the close relationship between DCME and the affiliate is such to enable greater cooperation throughout the execution process and effect swift changes to process where needed.

The selection of an affiliate will also allow DCME's orders to be exposed to the same liquidity pools as that of the affiliate.

Nevertheless, DCME shall at least annually review the entities for execution including its affiliates following the process in "review" section.

Where DCME execute orders outside a trading venue, we will discuss this with the client pre-trade. Additionally, every attempt is made to bring all of these trades on venue by utilising recognised reporting facilities such as TOSTNET in Japan.

### **OTC Transaction**

If trading equities OTC, we will reference such data points as; last traded price, current ADR equivalent price (if there is one) and most recent futures move to check the fairness of the price and inform the client of such information.

### **Monitoring and Demonstrating Best Execution**

DCME on an on-going basis will monitor the effectiveness of its execution arrangements and Policy. We will also conduct regular monitoring of the execution quality of 3<sup>rd</sup> party execution entities and periodic reviews to ensure that those entities provide best execution on a consistent basis in line with this Policy.

T+0; collate, examine, annotate where necessary our execution results including any T+0 reported provided by affiliates.

T+1 report will be provided direct to Management from our TCA tool.

Either based on these reports produced by the Front Office or on its own initiative, Compliance monitors if the Front Office follows the monitoring procedure.

#### *Ad-Hoc and On Demand Monitoring.*

Using our TCA vendor we are also able to provide bespoke reports for clients, compliance and management purposes.

### **Review**

Based on the information generated by the monitoring procedure above and that obtained from external sources, DCME will review its arrangements at least annually and also whenever a material change occurs that may affect our ability to continue to obtain the best possible result for clients. Where appropriate, we will correct any deficiencies identified.

Inter alia, DCME compares its execution brokers taking the execution factors and relative importance described in Execution factors so that it can provide the best possible outcome for its clients. DCME will develop the internal criteria so that it can assess the market landscape whether there is an alternative execution brokers.

Where necessary, DCME shall request its affiliates to amend and upgrade its execution arrangements.



## Appendix 2: Fixed Income, Currency, Commodities Execution Policy

### Scope

The desk provides pricing to pre-approved professional counterparts (*eligible counterparties* and *professional clients*) in all fixed income products as listed on the approved product list (excluding securities used for hedging purposes) It is considered by DCME that these clients do not rely on the firm to achieve best execution. The desk will apply a four-fold cumulative test published by the European Commission as set out below:

- Which party initiates the transaction
- Questions of market practice and the existence of a convention to 'shop around'
- The relative levels of price transparency within a market
- The information provided by the firm and any agreement reached

With regards to the fourth test, DCME has explained in its Order Execution Policy notice that we would apply the four-fold cumulative test so that we may conclude that the client does not rely on DCME.

### Scenario 1: Market Making (Trade Pricing Managed Through ION to Feed External Electronic Trading Platforms Including MarketAxess (MA), Tradeweb (TW), Yieldbroker (YB) and Bloomberg (BBG))

The prices provided to the platforms are managed by individual traders in ION on a continuous basis intra day. The price quote provided to the platforms can be managed in a number of ways and can be driven by:

- Spread (yield above or below declared benchmark government)
- Yield
- Asset swap (Calculated from our own internal curve data)
- Discount margin

Potential clients will see the Daiwa cash prices delivered into the platforms (MA, BBG, TW, YB) based on the above criteria. In the case of pricing related to a benchmark government bond or curve these will, of course, be moving second by second as underlying markets move.

Clients will select the bond of interest through one of the above platforms and see an array of competing quotes (both bids and offers) from competitors. They can then select the counterparties that they want to compete for their trade from that data and submit the order via RFQ (Request for quote). Most investors have internal rules which require competing quotes from a minimum of three dealers before execution so they will often select multiple dealers. The traders at each of the selected banks will see the RFQ appear on their screen stating client name, bond details, size of transaction, settlement criteria, number of competing dealers and will then need to finalise their price submission and send the firm price back to the client. The client chooses the best quote and returns that for execution. Assuming that the DCME quote is the best, a box will immediately appear in front of the trader confirming execution. STP allows the trade to feed directly into BBG and ION adjusting the position, risk and P&L accordingly. This allows us to show that there is a high level of price transparency and that trade acceptance and execution is entirely within the client's control.

Clients who engage or approach Daiwa through Instant Bloomberg (IB) or by telephone will usually ask for a firm quotation for DCME to either bid or offer a specific security. The process is manual and the salesperson who covers the client will have to use the Bloomberg Sales trader Workflow (STW) to obtain the quote from the



trader. It is in the form of an RFQ in that the trader will provide a price returned to the client via IB or telephone. If they choose to trade immediately on the phone it will be at the terms given but if they are via IB or there is any delay then the price will need refreshing.

### Scenario 2: The Traders Circulate “Runs” - Indicative Levels

The traders will also compile “Runs” which are distributed both internally and externally on Bloomberg (RUNZ function), highlighting both bids and offers that we would ideally like to trade on. If clients identify anything they feel is of interest then they will approach sales coverage to discuss. By using the function of “IMGR” or “QMGR” in Bloomberg, the client can compare the multiple “Runs” provided by other investment firms. In almost every case where a trade results from these Runs the client will have checked the price and depth of market before committing to trade with DCME. Client negotiation may take place to ensure that they achieve best execution. This indicates that there is a high level of price transparency and the client is able to compare other market quotes.

***Scenarios 1 and 2 meet the four fold test allowing DCME to show that we are not initiating a transaction on behalf of the client.***

### Scenario 3: DCME “Working” the Order

When a client requests DCME FI to work an order they will have already checked the market pricing and liquidity elsewhere and have approached DCME because they consider we are best positioned to be able to complete the trade.

It is important to clarify that the actual understanding as between the client and DCME is not one of reliance; the actual understanding between the client and DCME is that this is on a best efforts basis only, and is normally accompanied with specific instructions that in practice leaves no discretion in the hands of DCME.

***In this case, DCME assumes that either best execution does not arise at all, but that even if it were construed to have arisen it is satisfied further to DCME’s following the client’s specific instructions without deviation.***

### Scenario 4: An Order to Buy/Sell Bonds at the Discretion of DCME FI

Where a client leaves an order to work a trade on a best efforts basis, we will apply best execution. In these circumstances, price will generally be the most important execution factor, followed by speed of execution, size and likelihood of execution. If we are unable to fulfil the trade during this time period then this is reported to the client who then has the option of either cancelling the order, or leaving with DCME to continue to work, either with the same or revised instructions

#### *Relative importance of execution factors*

On the rare occasions that FI are “Left an Order” to execute business for a client it can be:

- For Credit bonds - Price, Spread or yield dependent
- All US and European Governments Bonds – generally price based apart from US Bills and WI (when issued bonds) which are yield based.

The client will have already checked the market pricing and liquidity elsewhere and have approached Daiwa because they consider us to be best positioned to be able to complete the trade.

They will likely state a specific time period for execution.

Credit bonds - Leave orders, if we are unable to fill the trade during the given time period then the order will immediately be returned to the client, confirming that Daiwa are no longer working the trade and that the client is free to trade away from us.

Government bonds –



- US Governments – If an order is given to DCME, the client will always give a “good till time, that can be until New York close”. If it is, then when London close if the order is not filled then we will pass this onto DCMA to fill if possible. At this point the responsibility of best execution will also pass to DCMA.
- Euro Governments – Again if the order is given to DCME for EURO governments the order is normally specified as good to London close. If it is not filled by this time then we advise the client that we are no longer working on it and that they are free to trade away from us.

Typically, where DCME is working an order, the client gives a specific instruction in relation to the price/yield and time. As such, for these aspects DCME fulfils its obligation by following the instruction. Also, where the client specifies the prioritised execution factors, DCME follows the instruction.

Where there is remaining discretion, typically in the fact pattern 4, DCME will generally think the relative importance as such.

1. Price
2. Speed
3. Size
4. Likelihood of execution
5. Cost
6. Other consideration relevant to the execution

However, where the bond is illiquid, DCME may think different order shall apply.

1. Likelihood of execution
2. Size
3. Price
4. Cost
5. Speed
6. Other consideration relevant to the execution

### Execution Venues

Fixed Income desk uses the following execution venues:

- Tradeweb
- MarketAxess
- Bloomberg
- Yieldbroker
- Daiwa Securities Group entities, including DCME, Daiwa Securities Co. Ltd., Daiwa Capital Markets America Inc., Daiwa Capital Markets Singapore Limited and Daiwa Capital Markets Hong Kong Limited.



## Monitoring, Demonstration of Best Execution

Fixed Income monitor all executions (whether it follows specific instruction, or where there is discretion) to ensure that we are able to demonstrate best execution.

T+0 – At execution or immediately following execution the trade processing will record the Time, Price, yield and settlement instruction. Sales will confirm the same execution details to the client via VCon in every case where trade takes place outside the electronic trading platforms. Trades executed through the Electronic trading platforms automatically record the same details and are STP'd into Bloomberg immediately and reflect changes in Risk and P&L. They are then fed to all internal downstream systems. Acceptance of the trade by the client is de facto proof that they have accepted that Daiwa has provided Best Execution.

The trade will progress to settlement T+2 being the regular market convention but can be as long as T+10.

Should the need arise to reference the trade at any point following execution to demonstrate Best Execution then we are able to recall all the trade parameters together with underlying yields at time of execution. We cannot however reference all competing executable quotes for the security at the time of our execution.

At the request of the client, FI will explain and demonstrate that it fulfilled the obligation using the information produced above.

## Review

Based on the information generated by the monitoring procedure above and that obtained from external source), Fixed Income review its arrangement at least annually and amend if any deficiency is identified.

Also, where material change<sup>1</sup> occurred and identified by the normal course of the monitoring process, we shall consider amending the arrangement at any time.

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<sup>1</sup> See "Monitoring and Review" in the overarching policy.



## Appendix 3: International Convertible Bonds (ICB)

### Scope

The desk provides pricing to pre-approved professional counterparts (eligible counterparties and professional clients) on convertible bonds in various currencies. That being so, DCME considers these clients do not rely on the firm to achieve best execution. In order to reach this conclusion, the desk will apply a four-fold cumulative test published by the European Commission.

- Which party initiates the transaction
- Questions of market practice and the existence of a convention to 'shop around'
- The relative levels of price transparency within a market
- The information provided by the firm and any agreement reached

With regards to the fourth test, DCME has explained in its order execution policy notice that we would apply the four-fold cumulative test so that we may conclude that the client does not rely on DCME.

### Fact Pattern 1: Market Making (Firm Quotes on IB and Trading on an External Electronic Trading Platform)

Clients will usually ask for a firm quote, mainly on Instant Bloomberg (IB) messaging or by telephone.

Some clients will do their trading on Tradeweb, the electronic trading platform, whereby the client will see the DCME cash prices delivered into the platforms.

Most investors have internal rules which require competing quotes from a minimum of three dealers before execution so they will often select multiple dealers. This indicates that it is the client who initiated the transaction as well as there is the market convention to 'shop around'.

In the case of Tradeweb, the client will see DCME's executable price displayed on their screen together with other competing competitor quotes. The client chooses the best quote and returns that for execution. Assuming that the DCME quote is the best, a box will immediately appear in front of the trader confirming execution. The client will again ask for prices from three or more competing brokers before trading on what is the 'best price'; this shows that there is a high level of price transparency.

### Fact Pattern 2: The Traders Circulate "Runs"- Indicative Levels

The traders will also compile "Runs" which are distributed both internally and externally on Bloomberg, highlighting both bids and offers that we would ideally like to trade on. If clients identify anything they feel is of interest then they will approach Sales coverage to discuss. By using the function of "IMGR" in Bloomberg, the client can compare the multiple "Runs" provided by several investment firms. In almost every case where a trade results from these Runs the client will have checked the price and depth of market before committing to trade with DCME. Negotiation (haggling) will very likely take place to ensure that they have best execution. This indicates that there is a high level of price transparency and the client is expected to shop-around.

**As such, Fact Pattern 1 and 2 typically fulfil the test so that DCME is not acting on behalf of the client.**

### Fact Pattern 3: DCME "Working" the Order

DCME will often trade in a high-delta convertible bond with an 'outright' investor, where DCME does not want to take the overnight risk and thus will agree a price based on the sale or purchase of the corresponding equity traded by DCME to negate that risk.



Ideally the client will have already checked the market pricing and liquidity elsewhere and have approached DCME because they consider we are best positioned to be able to complete the trade. After agreeing the reference price, the client will specify how they would like the stock to be executed on exchange (e.g. VWAP over the day, strict limit, etc.). DCME treats these as specific instructions in relation to the price and the speed; there is no discretion on this point.

***In that case, DCME assume that the best execution is fulfilled following these specific instructions.***

#### Fact Pattern 4: Discretion Order Left by Client or Illiquid CB Order

Where a client leaves an order to work on a 'best efforts' basis, we will apply best execution. In those circumstances, price will generally be the most important execution factor, followed by speed of execution, size and likelihood of execution. If we are unable to fulfil the trade during this time period then this is reported to the client who then has the option of either cancelling the order, or leaving with DCME to continue, either with the same instructions or with a new set.

#### Relative Importance of Execution Factors

Typically, where DCME is working on order, the client gives a specific instruction in relation to the price and time. As such, for these aspects DCME fulfils its obligation by following the instruction. Also, where the client specifies the prioritised execution factors, DCME follows the instruction.

Where there is remaining discretion, typically in the fact pattern 4, DCME will generally think the relative importance as such.

1. Price
2. Speed
3. Size
4. Likelihood of execution
5. Cost
6. Other consideration relevant to the execution

However, where the bond is illiquid, DCME may think different order shall apply.

1. Likelihood of execution
2. Size
3. Price
4. Cost
5. Speed
6. Other consideration relevant to the execution

#### Execution Venues

The ICB desk uses DCME as an execution venue, plus the following:

- Regulated markets (e.g. Tokyo Stock Exchange for Japan Equities); and
- Tradeweb.





## Monitoring and Demonstration of Best Execution

ICB will be able to monitor stock executions (whether it follows the specific instruction, or where there is discretion, vs VWAP or time benchmarks) to make sure that we are able to achieve best execution.

Where it is trading on the illiquid/bespoke instruments and no specific benchmark is found, ICB will utilise the comparable instruments so that it can check the fairness of the price.

For this purpose, ICB will implement two-stage monitoring procedure.

1. T0 daily monitoring. Immediately following the execution, ICB will check the execution and assess whether it follows (1) the specific instruction and/or (2) the client expectation where there is discretion, based on the benchmark. If ICB find any deviation, it will leave the record of the reason along with the market environment which caused the outcome so that it can be used for the explanation to the client as well as upgrading its execution arrangement.
2. T+1 TCA monitoring. ICB will check its execution quality utilising TCA tool provided by LiquidMetrix. This can be also used to produce a report to the client at their request to show ICB discharged the best execution duty.
3. Periodic summary reports. Based on the information produced by (1) and (2), ICB will summarise the activity of the execution periodically. The report shall be provided the line manager as well as the senior managers, Compliance and the best execution committee. The report shall include the information that enables the recipients to identify the deficiencies of the execution arrangement and to amend if necessary.

At the request of the client, ICB will explain and demonstrate that it fulfilled the obligation using the information produced above.

## Review

Based on the information generated by the monitoring procedure above and that obtained from external source), ICB review its arrangement at least annually and amend if any deficiency is identified.

Also, where material change<sup>2</sup> occurred and identified by the normal course of the monitoring process, we shall consider amending the arrangement at any time.

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<sup>2</sup> See “Monitoring and Review” in the overarching policy.



## Appendix 4: Quarterly Review Process

### Best Execution Obligations - Detailed Analysis

Detailed Analysis has been performed by Front Office Control in conjunction with the Business and Compliance to identify where Best Ex obligations may arise upon each of the DCME business areas given their respective business execution flows. This includes establishing where Best Execution may be owed to clients for certain flows against the four fold test review “Best Ex Framework” This analysis has been approved by all relevant Business Heads

### Quarterly Attestation – Business Sign Off Sheet

The Best-Ex committee meets on a quarterly basis and requires Business heads to provide a sign off to attest that their respective business areas have met their regulatory Best-Ex obligations through the preceding 3 months including:

- Best-Ex position for each desk as documented through the detailed analysis remains accurate /meets the regulatory Best-Ex obligations, or is to be updated
- Execution flows across the quarter did not deviate from the documented analysis / framework
- Where any execution flow has deviated from those documented confirm the four-fold accumulative tests performed and additional factors evidenced if deemed necessary

MiFID II Best Execution Obligations – Quarterly Business Attestation			
<b>Period</b>	e.g. Q1 2020	<b>Date</b>	dd/mm/yyyy
<b>Business Area</b>			
<b>Business Manager</b>			
<b>Best Execution Framework</b>	Attest the Best-Ex Framework continues to accurately reflect the execution flows of the business.		
	<i>Signed:</i>		
	Attest the business flows executed across the quarterly period has not deviated away from the documented Best-Ex Framework.		
	<i>Signed:</i>		
Where the business flows executed across the quarterly period has deviated away from the documented Best-Ex Framework.			
Attest the following steps have been performed per trade to determine any Best-Ex obligations are owed to clients.			



	<ul style="list-style-type: none"><li>• Application of the Four Fold Test</li><li>• Where deemed Best-Ex is Owed – the additional Factors reviewed and evidenced</li></ul> <p>Please ensure the Best Execution framework documentation is accurately updated to reflect any business flows changes as required</p>
	<i>Signed:</i>
<b>Division Head</b>	<i>Signed:</i>

