Nanhua Financial (UK) Co Limited

Order Allocation and Execution Policy

2021

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Introduction

Nanhua Financial (UK) Co Limited (NFC) is required under the rules of the Financial Conduct Authority (FCA) and the Markets in Financial Instruments Directive 2014/65/EU (now UK MiFID2) to deliver Best Execution for its Professional Clients.

Best Execution is the requirement to take all sufficient steps to obtain, when executing orders, the best possible result for clients considering certain execution factors. These factors include price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of an order.

This policy applies to the reception, transmission, and execution of client orders where:

- The order is for a “Financial Instrument” as defined under the Markets in Financial Instruments Directive 2014/65/EU (now UK MiFID2) whether traded on a trading venue or outside a trading venue on an Over-the-Counter (OTC) basis. Financial Instruments include commodity derivatives such as futures and options.
- The order is from a client which has been categorised as a Professional Client. Best Execution obligations do not apply to transactions effected for or with Eligible Counterparties.

Even where Best Execution rules do not apply, NFC will act honestly, fairly and professionally.

1. Exemptions from Best Execution

The following are the main circumstances where Best Execution does not apply:

- Client submits a specific instruction to NFC relating to an entire order or a specific aspect of that order and NFC undertakes to execute the order in accordance with that specific instruction. NFC will be subject to the Best Execution obligations in respect of any other parts or aspects of such orders not covered by the specific instruction.
- NFC provides a quote to a client and the client is not legitimately relying on NFC to protect its interests in relation to the pricing and other elements of the transaction that may be affected by the choice made by NFC (see 2 below the “four-fold” test).

2. Determination of Best Execution

NFC owes a duty of Best Execution whenever it is executing orders on behalf of Professional Clients and applies:

- Where NFC owes agency or contractual obligations to the client.
- Where NFC is dealing on their own account and the client is legitimately relying on NFC in relation to the execution of the transaction.

NFC may deal as a Principal where for example a client has accepted a quote. The determination of whether the client is owed Best Execution will depend on whether the client is legitimately relying on NFC. NFC will apply the “four-fold” test as follows:

Who initiates the transaction

A client initiating the transaction is an indication that the client is unlikely to be placing reliance on NFC. NFC communicating trade ideas and indicative prices does not constitute initiation by NFC.

Market practice

Market practice is for clients to approach several brokers for a quote (i.e. to "shop around") and such a case indicates that the client is unlikely to be placing reliance on NFC.

Market transparency

NFC having greater access to market data than a client is an indication that the client is likely to be placing reliance on NFC, however if the client has the same access, this would then make it unlikely that they are relying on NFC.

Terms of Business

Where NFC's Terms of Business do not indicate or suggest a relationship of reliance, it is less likely that the client will be placing reliance on NFC.

The above is the "four- fold" test approach referred to by the FCA and applied on a cumulative basis. However, even where Best Execution rules do not apply, NFC will act honestly, fairly and professionally.

3. Achieving Best Execution

NFC will consider the following execution factors:

- Price
- Execution costs and risks relevant to execution
- Speed of execution
- Likelihood of execution and settlement
- Size and nature of the order
- Likely market impact
- Nature of the market for the relevant product

NFC will consider the following when determining the relative importance of the execution factors:

- The client, including their categorisation
- The client order
- The financial instrument
- The execution venues

NFC ranks the execution factors as follows:

- Price

- Likelihood of execution and settlement
- Any other execution factor on an equal footing

There may be circumstances where Price may not be the most important execution factor for example likelihood of execution and settlement on illiquid markets.

4. Direct Electronic Access (DEA)

If the client is using Direct Electronic Access (DEA) provided by NFC to transmit and submit orders automatically (or straight through) to a particular trading venue, the client will determine all of the parameters of the order prior to such transmission. Consequently, NFC will not owe a duty of Best Execution to the client in respect of any such orders.

5. Execution Venues

NFC executes its client orders on the LME as its clients require LME contracts and it is the only execution venue providing LME Contracts. NFC also executes small numbers of client orders (relative to the numbers executed on the LME) on CME and SGX through intermediate clearing brokers which are affiliate group companies. As NFC's business grows it will likely execute its client orders on other venues as set out below:

- Other regulated markets
- Multilateral Trading Facilities (MTFs)
- Organised Trading Facilities (OTFs)
- Systematic Internalisers
- Market makers

The factors that NFC takes into account when selecting a venue are:

- Prices available on the various venues
- Size and character of the client order and financial instrument subject to that order
- Need for timely execution
- Likelihood and speed of execution and settlement
- Market liquidity
- Execution costs
- Client consented to use of MTF or OTF

NFC may charge a fee, commission or apply a mark-up or spread to the execution price but will never charge a commission and a mark-up. Commodity derivative contracts can only be traded on a specific execution venue for example ICE and the LME. NFC will not receive any remuneration, discount or non-monetary benefits for routing orders to a specific execution venue. NFC does not have any close links or conflicts of interest with any execution venue. NFC may charge different fees in respect of commodity derivative contracts traded on different execution venues.

Clients will incur counterparty credit risk on NFC including potentially less favourable treatment under applicable insolvency laws when it executes client orders on a venue outside a trading venue. Trades executed outside a trading venue may incur additional risks including:

- The transactions are not subject to the rules of a trading venue or central clearing counterparty
- Orders do not benefit from any additional unpublished liquidity
- Orders do not benefit from any additional pre and post trade transparency

6. Compliance Monitoring

NFC will implement a monitoring and governance framework to monitor the effectiveness of its order execution arrangements and policy on an on-going basis. The arrangements include:

- This Policy is reviewed at least annually, and any material changes notified to NFC's clients.
- Performing on-going monitoring by the front-office and compliance including the testing of the execution results. The results of the monitoring will be escalated to NFC senior management.
- Ensuring that this Policy is appropriate and incorporating any new products or services offered by NFC.
- Reviewing the application of the Policy.
- Reviewing the execution venues and ensuring that they are still appropriate.

7. Order Allocation

NFC is required under the FCA's rules on Client Order Handling (COBS 11.3) to implement procedures and arrangements which provide for the prompt, fair and expeditious execution of client orders. NFC must ensure that all executed client orders are promptly and accurately recorded and allocated. NFC must carry out otherwise comparable orders sequentially and promptly, unless the characteristics of the order or prevailing market conditions make this impracticable.

NFC is not allowed to execute a client order or a transaction for its own account in aggregation with another client order unless the following conditions are met:

- It must be unlikely that the aggregation of orders and transactions will work overall to the disadvantage of any client whose order is to be aggregated.
- It must be disclosed to each client whose order is to be aggregated that the effect of aggregation may work to its disadvantage in relation to a particular order.
- An order allocation policy must be established and effectively implemented, providing in sufficiently precise terms for the fair allocation of aggregated orders and transactions, including how the volume and price of orders determines allocations and the treatment of partial executions

NFC will execute client orders before own account transactions. NFC's allocation rule is to allocate trades based on the time the order is received, for example where orders are aggregated but only partially filled, the allocation would be on the basis of order receipt time.