

HONG KONG BEST EXECUTION POLICY

LISTED DERIVATIVES

TABLE OF CONTENT

- 1 - INTRODUCTION 3**
 - 1.1 OBJECTIVES 3
 - 1.2 UNDERLYING REGULATION..... 3
 - 1.3 WHAT IS BEST EXECUTION..... 3
 - 1.4 SCOPE 3
 - 1.4.1 *Client and SGSHK licensed persons* 3
 - 1.4.2 *Scope of activities* 3
 - 1.4.3 *Applicability of best execution* 4
 - 1.4.4 *Circumstances where best execution do not apply*..... 5

- 2 - EXECUTION FACTORS AND CRITERIA 5**

- 3 - ROLES & RESPONSIBILITIES 6**
 - 3.1 GOVERNANCE 6
 - 3.2 ROLES AND RESPONSIBILITIES..... 6
 - 3.2.1 *Responsibilities of Front Office* 6
 - 3.2.2 *Responsibilities of compliance* 6
 - 3.2.3 *Responsibilities of internal audit*..... 6

- 4 - ARRANGEMENTS WITH AFFILIATES, CONNECTED PARTIES AND THIRD PARTIES 7**

- 5 - MONITORING AND CONTROLS 7**

- 6 - TRAINING 7**

1 - Introduction

1.1 Objectives

This policy aims to provide guidance on best execution in relation to the listed derivatives agency trading activities conducted by licensed representatives of SG Securities (HK) Limited (“SGSHK”) and our approach to providing best execution, where applicable, as required by the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission (“SFC Code”).

1.2 Underlying Regulation

The Code of Conduct for Persons Licensed by or Registered with the SFC (“Code of Conduct”) requires that a licensed person executes client orders on the best available terms to deliver best execution. Paragraph 3.2 of the Code of Conduct states that a licensed person when acting for or with clients should execute client orders on best available terms.

It is also expected that there are appropriate arrangements in place, including controls, monitoring and management supervision, to obtain the best available terms. Such arrangements should be subject to periodic review to ensure best execution is achieved consistently.

The SFC issued a circular in 2018 that sets out the guidance on the standards of conduct and internal controls in delivering best execution; and a report on a thematic review conducted on selected licensed corporations that lists out good industry practices.

1.3 What is Best Execution

The SFC expects all licensed corporations to take all sufficient steps to obtain the best possible results for clients, taking into account execution factors such as price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order. Best Execution does not mean that we can guarantee that the best price will be achieved for every single client order, but we will look to ensure that we are acting, to the extent possible, in the best interests of our clients.

Delivering best execution, among other general principles as stated in the SFC Code of Conduct, is fundamental to market integrity and protection of investors who rely on us to act in their best interests during the execution process.

1.4 Scope

1.4.1 Client and SGSHK licensed persons

This Best Execution policy applies to agency activities of listed derivatives with clients conducted by SGSHK and the licensed representatives of SGSHK.

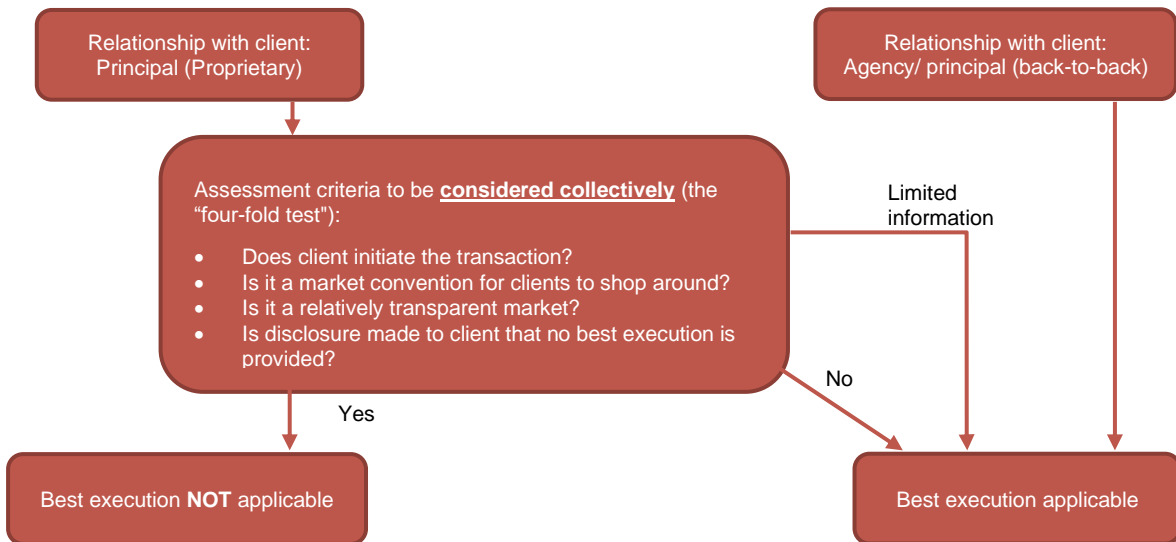
1.4.2 Scope of activities

The Best Execution policy applies to the below activities whereby the pricing of the transactions is dependent on executions by SGSHK:

- On-Exchange transactions
- Off-Exchange transactions
- OTC transactions
- Execution of client orders, on a third-party execution venue or as a counterparty
- Reception and transmission of orders to third party execution agents

1.4.3 Applicability of best execution

Below is a flow chart which illustrates how an assessment on applicability of best execution should be made:



When entering into agency¹ or back-to-back principal² transactions with clients, the obligation to deliver best execution remains with SGSHK.

When entering into principal transactions with clients, other than those which are back-to-back in nature, SGSHK should carry out our own assessments to determine whether clients are relying on us to protect their interests, and whether the best execution obligation is owed, before applying any carve outs.

1.4.4 Circumstances where best execution do not apply

Best execution does not apply when the client does not legitimately rely on SGSHK as the service provider to offer him best execution on all or part of the execution factors. For instance:

- When we receive specific instruction from a client as to how we should execute an order (or a particular aspect of the order, including instructions on a particular execution venue, at a particular time, or at a particular price). Note that where a client has given specific instructions which cover one part or one aspect of an order, best execution still applies on other aspects of the order that are not covered by the specific instruction
- When the client transmits his orders to a trading platform via DMA, SDMA or clients' own algorithm
- When the client does not pass the four-fold test assessment criteria, after all the criteria are considered collectively
- Underwriting and placing services
- Activities that are not inherently linked to client order processing

2 - Execution Factors and Criteria

Delivering best execution is fundamental to market integrity and protection of investors who rely on SGSHK to act in their best interests during the execution process.

When providing best execution, the following execution factors must be taken into account:

- Price;
- Costs payable by the client as a result of execution;
- Speed of execution;
- Likelihood of execution;
- Size and nature of the order;
- Likely market impact;
- Risks relevant to the execution;
- Nature of the market for the product; and
- Any other considerations that are deemed relevant to the execution of the order

The relative importance of each factor may vary from case to case and must be evaluated by considering the categorization of the client, the order, the product, the execution venue, and any other criteria that we consider relevant.

As a general principle across all products and services, we should use our commercial judgement and experience based on available market information and to take all sufficient steps to obtain the best possible result for our clients.

¹ Agency execution is where we receive an order from a client and directly execute that order with the market for and on behalf of the client (without being counterparty to the transaction).

² Back-to-back principal (or riskless principal) execution is where we receive an order from a client and we execute that order with the market on a back-to-back principal basis, such that we are counterparty to both the client and the market but we are never exposed to market risks throughout the execution of the transaction; both sides are executed simultaneously, and the transaction is concluded at a price where we make no profit or loss, other than a previously disclosed commission, fee or charge for the transaction.

3 - Roles & Responsibilities

3.1 Governance

A committee where best execution issues are discussed should be put in place to ensure trade exceptions identified by the first and second lines of defence, and any other matters related to best execution are brought to management's attention for timely review. Best execution issues such as delays in execution, deviations in execution outcomes when compare against benchmarks, execution failures of engaged third parties, etc should be assessed.

The committee should be chaired by senior management and representatives from the execution team, compliance functions and other control functions, and should be conducted on a regular basis.

3.2 Roles and responsibilities

3.2.1 Responsibilities of Front Office

Execution staff and supervisors form an important first line of defence in the execution process. Reasonable diligence should be demonstrated in handling client instructions, monitoring execution outcomes and taking steps to obtain multiple quotes, where applicable. In case multiple quotes are absent, execution staff should obtain sufficient pricing information on a best-effort basis to validate quotes provided to clients.

Responsibilities of front office include:

- Producing and supervising best execution procedures, that provide detailed information on different trading scenarios in delivering best execution. For instance,
 - handling clients' orders in cases where multiple quotes exist and where pricing information is insufficient, or quotes are absent;
 - disclosure to clients of best execution arrangements including carve outs and the exclusive use of affiliates, connected parties and third parties
 - define deviation thresholds which, when crossed, would warrant investigation and the escalation path for exceptions
 - please refer to the respective best execution procedures for various desks for details, where applicable
- Reviewing its best execution procedures for executing client orders at least once a year or whenever there are material changes. The procedures should state how to validate the quotes provided to clients in cases where multiple quotes for debt securities transactions could not be obtained by execution staff
- Producing transaction costs analysis ("TCA") reports to monitor execution quality by comparing execution outcomes against benchmarks such as VWAP or Implementation Shortfall, and to detect abnormal trends and fine-tune execution strategy to achieve better results for similar scenarios, where applicable. TCA reports should also be made available upon client requests, to provide clients a comparison on the execution outcomes of the client's orders with benchmarks such as VWAP
- Evaluating performance of third parties by assigning them scores and creating a feedback loop to promote execution quality
- Implementing controls to measure best execution both pre-trade and post-trade
- Ensuring best execution policy and procedures are followed

3.2.2 Responsibilities of compliance

Controls and monitoring carried out by second line of defence should be in place to review the quality of execution and to detect and address anomalies. Roles for the control and monitoring of best execution by Compliance functions should be well-defined.

3.2.3 Responsibilities of internal audit

An annual risk assessment is performed for all the activities and related risks by Internal Audit. Internal Audit ensures that all of them are audited on the risk based frequency, with no later than 5 year cycle. As

for SGSHK, the best execution policies and procedures are part of the scope of the audited activities in accordance to the applicable regulation and requirement.

4 - Arrangements with affiliates, connected parties and third parties

SGSHK should take actions to ensure that execution arrangements with affiliates, connected parties and third parties do not undermine the delivery of best execution. Due diligence should be carried out on affiliates, connected parties or third parties engaged for execution, and a systematic process should be in place to continuously monitor execution outcomes. The obligation to deliver best execution remains with SGSHK, whether the orders are executed through affiliates, connected parties or third parties.

5 - Monitoring and Controls

Controls and monitoring carried out by second and third lines of defence are in place to review the quality of execution and to detect and address anomalies.

Trade exceptions and any issues related to best execution such as delays in execution, deviations in execution outcomes when compared against benchmarks, execution failures of engaged third parties, etc will be brought to management's attention for timely review.

6 - Training

All relevant staff should be provided with periodic training on best execution as well as updates on internal policies and regulatory and technological developments.

All relevant attendance logs and records should be maintained for proper audit trail, and should be kept for at least 7 years.