

# **Summary of the Best Execution Policy**

## **HSBC Private Bank (Luxembourg) S.A.**

## 1. Best Execution Policy

### a. Scope

The provisions of this clause outline the main features of the Best Execution Policy (the "Best Execution Policy") of HSBC Private Bank (Luxembourg) S.A. (referred hereafter as "the Bank").

This Best Execution Policy is only applicable to retail and professional clients regardless of whether they are an elective professional (via opt-up process) or per se professional, as defined by MiFID II and any reference in this section to a client refers to these categories. Clients should have received a formal notification from the bank informing them about their categorization. Where best execution requirement applies, the Bank will take all sufficient steps to obtain the best possible result for its clients taking into account the best execution criteria and factors detailed below.

This policy is applicable to all investment services (Advisory, Portfolio Management and Execution services).

As per the MiFID II requirements, this policy does not apply to those clients who are classified as Eligible Counterparties by the Bank.

### b. Covered financial instruments

The Best Execution Policy applies when the Bank receives, transmits or executes client orders in financial instruments. The Bank distinguishes between the following classes of financial instruments:

- Equities and other Exchange-traded instruments (ETFs and listed derivatives);
- Fixed Income Instruments;
- Foreign Exchange and Precious Metals derivatives;
- OTC Derivatives
- Structured Products;
- Units in collective undertakings (units/shares in funds).

Spot foreign exchange order (notably "FX spot") are not in the scope of this policy.

### c. Best execution factors and criteria

In order to achieve the best possible result for the client, the bank will consider a range of execution factors which should determine the best outcome for its clients.

#### i. Execution factors

The execution factors that the Bank will consider are:

- Price: this is the price a financial instrument is executed at;
- Costs: this includes implicit costs such as the possible market impact, explicit external costs e.g. exchange or clearing fees and explicit internal costs which represents the Bank's own remuneration through commission or spread;
- Speed: time it takes to execute a client order;

- Likelihood of execution and settlement: the likelihood that the Bank will be able to complete a client order;
- Size and Nature: Order size and how the characteristics of a client order can affect how best execution is received.
- Any other circumstance which, in the Bank's opinion, is relevant to the execution of a particular order

#### ii. Best execution criteria

In order to determine the relative importance of each execution factor detailed hereabove, the Bank will take into account:

- the characteristics of the client including the categorisation of the client as retail or professional;
- the characteristics of the client order, including where the order involves a securities financing transaction (SFT);
- the characteristics of financial instruments that are the subject of that order; and
- the characteristics of the execution venues to which that order can be directed.

#### iii. Total consideration

As a general rule, when executing an order on behalf of a retail client, the best possible result shall be determined in terms of the total consideration. "Total consideration" includes the price of the final instrument and the costs related to execution, including all expenses incurred by the client which are directly related to the execution of the order, including execution venue fees, clearing and settlement fees and any other fees paid to third parties involved in the execution of the order. There are three categories of costs which the Bank takes into account in evaluating "total consideration":

- Implicit costs: these costs are variable and unknown before a trade. They include the spread, the market impact of a trade, and the opportunity costs of a trade (related to operational constraints, market timing issues, and missed trade costs). These costs depend fundamentally on the trade characteristics, the prevailing market conditions as well as the speed of execution.
- Explicit external costs, which include commissions, fees, taxes, exchange fees, clearing and settlement costs, or any other costs passed on the client by intermediaries participating on the transaction; and
- Explicit internal costs, which represent the remuneration of the Bank through its commission or spread.

In executing client orders, the Bank takes all necessary steps to minimise implicit costs as well as explicit external costs. Where appropriate or required by law, the Bank also undertakes to make a prior disclosure to its clients of all its internal costs (see the Bank's Tariff Brochure and Costs & Charges disclosures).

Whilst total consideration is of primary importance in achieving best execution, other factors identified above may also be instrumental in delivering the best possible execution result to the client. Therefore, in evaluating the relative importance of all other factors, the Bank will take into account:

- The specific nature of the instrument traded;

- The market where such instrument is traded;
- The characteristics of the order relating to the instrument, including the size of the trade relative to other trades in the financial instrument and the need to minimise any possible impact of the order on the market.

More details regarding how an order will be executed by the Bank broken down by type of financial instrument is provided in section e below.

#### **d. Execution venues**

For the purposes of this Best Execution Policy, execution venue means a regulated market, an MTF<sup>1</sup>, an OTF<sup>2</sup>, a systematic internaliser, or a market maker or other liquidity provider or an entity that performs a similar function in a third country to the functions performed by any of the foregoing or a third party broker or HSBC Group entity who acts as broker of the Bank and on whom the Bank place significant reliance.

A trading venue is either a regulated market, an MTF or an OTF. Should specific circumstances warrant that the Bank executes an order outside of a trading venue, clients should be aware of the risks and consequences of the execution of orders outside a trading venue, such as for example:

- Transactions may not be subject to the rules of Trading Venues, which are designed to provide a fair and orderly treatment of orders;
- Execution may not benefit from pre and post trade transparency in respect of price and liquidity;
- Counterparty risk arising from the settlement of the transaction.

Additional information about the consequences of this means of execution are available to clients upon request.

The Bank must check the fairness of the price proposed to the client when executing orders or taking decisions to deal in OTC products, including bespoke products, by gathering market data used in the estimation of the price of such products and, where possible, by comparing with similar or comparable products.

#### **e. Execution of order per type of financial instrument**

##### **Equities and other Exchange-traded instruments (ETFs and listed derivatives)**

The Bank do not execute client orders on Equities and other Exchange-traded instruments but receive and transmit the order to approved execution venues.

The Annex 1 of this document lists the approved venues and the factors considered in the selection of the venue when an order is to be transmitted.

##### **Fixed Income Instruments**

When executing client orders on fixed income instruments, the Bank acts with an agent trading capacity and consider total consideration as the most important factor in deciding where and how to obtain the best possible result for the clients. Orders are systematically executed on an MTF.

The Annex 1 of this document lists the approved venues and the factors considered in the selection of the venue when an order is executed.

##### **Foreign Exchange and Precious Metals Derivatives**

Client orders are executed by the Bank acting as principal to the client, engaging in a back-to-back transaction against HSBC Private Bank (Suisse) S.A., which faces the market counterparty.

Given the nature of the foreign exchange market, which is a continuous and over-the-counter market, timely execution of a client order is considered a paramount factor to achieve best execution. The importance of this factor varies depending on whether the order is considered a flow order or not.

The Annex 1 of this document lists the approved venues and the factors considered in the selection of the venue when an order is executed.

##### **Over-The-Counter (OTC) Derivatives**

Client orders are executed by the Bank acting as principal to the client, engaging in a back-to-back transaction against HSBC Private Bank (Suisse) S.A., which faces the market counterparty.

Given the over-the-counter nature of derivatives markets, and the potential for bespoke terms and valuations, timely and efficient execution of client orders is a key consideration in achieving best execution for OTC derivatives.

In facilitating the execution of OTC derivative orders, the trader will consider factors such as the pricing available for the specific derivative in the market, the counterparty risk associated with the transaction, the spread of execution, and the likelihood of successful execution and settlement.

The Annex 1 of this document lists the approved venues and the factors considered in the selection of the venue when an order is executed.

##### **Structured Products**

When executing client orders on fixed income instruments, the Bank acts with an agent trading capacity and consider total consideration as the most important factor in deciding where and how to obtain the best possible result for the clients. Orders are executed with approved issuers for structured products. These issuers are approved based on the following criteria:

- Credit quality of the issuer: during the term of a funded structured product, clients remain exposed to the credit risk of its issuer. As a result, the Bank considers that clients should only be offered products whose issuer meets minimum credit standards as defined by the Global SP

<sup>1</sup> MTF: Multilateral Trading Facility, a multilateral system operated by an investment firm or market operator, which brings together multiple third-party buying and selling interests in financial instruments in the system and in accordance with non-discretionary rules – in a way that results in a contract in accordance with Title II of Directive 2014/65/EU. 'Non-discretionary rules' means that the investment firm operating an MTF has no discretion as to how interests may interact.

<sup>2</sup> OTF: Organized Trading Facility, means a multilateral system which is not a Regulated Market or an MTF and in which multiple third-party buying and selling interests in bonds, structured finance products, emission allowances or derivatives are able to interact in the system in a way that results in a contract in accordance with Title II of Directive 2014/65/EU.

Issuer Selection Policy. In addition, the Bank considers that issuers with a higher credit quality are likely to provide greater pricing consistency on their products given that the funding component of their products will be less volatile;

- Quality of the overall service provided by the issuer: issuer quality is measured by a third factor related to the quality of its overall service. In evaluating this factor, the Bank takes into account the pricing transparency of the issuer, secondary market valuations, access to a pricing tool and to the pricing parameters of the issuer, and the quality of the legal and compliance support afforded by the issuer in providing product documentation meeting the Bank's local legal requirements.

The Bank systematically requests a minimum of two quotes from approved issuers before executing client orders on these products, using a variety of means from telephone, email, or using the issuers' pricing tools. HSBC Global Banking and Markets is systematically requested to quote a price, when capable. The best price obtained in this process is always shown to the client, and the Bank maintains an archive of all prices obtained in this process.

In some cases, a price comparison may be unachievable or may be limited application. This may occur:

- First, when, as a result of the particular nature/structure of the product at hand, the Bank cannot identify, using reasonable means to this end, more than one approved counterparty able or willing to provide a quote on the product. In this case, the Bank will inform the client of this fact and that the requirements of the Best Execution Policy are therefore not applicable to the transaction, and obtain the client's consent to proceed to the transaction nonetheless;
- Secondly, when the Bank faces operational constraints and must resort exclusively to HSBC Global Banking and Markets to obtain a quote. In this case, the Bank must inform the client of this fact and obtain the client's consent to proceed nonetheless with the transaction. When the pricing of any given structure is transparent and alternative pricing sources/models are available, the Bank must use these sources to evaluate the competitiveness of the price provided by HSBC Global Banking and Markets. When the Bank determines that the price provided by HSBC Global Banking and Markets is not competitive, the Bank will inform clients of this fact, and must obtain clear client instructions to proceed with the transaction nonetheless.

The Annex 1 of this document lists the approved venues and the factors considered in the selection of the venue when an order is executed.

#### **Units in collective undertakings (units/shares in funds).**

Subscriptions or redemptions of investment funds are transacted at the applicable net asset value for the particular transaction, using relevant transactional platforms, such as FundSettle Euroclear, to this end, or, in limited cases, dealing directly with the fund administrator. In order to transact at the next applicable net asset value, trades should be input before the internal cut-off time. For daily / weekly funds the internal cut-off time is 3 hours

before the external cut-off time. For funds with monthly or longer liquidity the internal cut-off time is 3 business days before the external cut-off time. If a trade is received after the internal cut-off time it will be executed on a best effort basis.

The Annex 1 of this document lists the approved venues and the factors considered in the selection of the venue when an order is to be transmitted.

#### **f. Specific client instructions – warning to the client**

Where the client provides the Bank with a specific instruction as to how to execute an order (for example by specifying an exchange on which the instrument should be traded), the Bank shall, where possible, endeavor to carry out the client's instruction. **However, the client should note that if the Bank acts on the client's specific instruction, the Bank may be prevented from obtain the best possible result for the execution of the orders in accordance with the Bank's Best Execution Policy.** If a client provides the Bank with specific instruction(s), the Bank will be treated as having satisfied its obligation to take all reasonable steps to obtain the best possible result for the client.

Should it not be feasible to follow specific clients' instructions, the Bank shall inform the client about the potential risks coming from the settlement of the transaction. However, by accepting this policy, the client states his awareness of such risks.

#### **g. Verification, monitoring and review**

The Bank has procedures and systems in place that enable it to verify, on a periodic basis for a sample of trades, the trading performance of specific orders against industry standard benchmarks (e.g. IVWAP for Equities, Far Touch for Fixed Income).

The client may request verification of the quality of execution. Upon request, the Bank will provide clients with proof that this policy was observed.

The Bank will monitor the effectiveness of its execution arrangements and Best Execution Policy and assess on a regular basis whether the execution venues, including HSBC execution venues, that the Bank has selected, provide the best possible result.

The Bank will review this Best Execution Policy and its execution arrangements at least annually. The Bank will also notify its clients of any material changes to its execution arrangements or this Policy. A material change is considered as such whether it affects the Bank's capability to offer the best possible results for its clients on consistent basis.

In accordance with MiFID II obligations, the Bank will annually publish information on the quality of execution obtained on its top five trading venues for each class of financial instruments. The information will include, among others:

- Venue name and identifier;
- Volume of client orders executed on the Venue, expressed as percentage of total executed volume;
- Number of clients orders executed on the Venue, as a percentage of total executed volume;

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- Percentage of the executed clients' orders that were Passive<sup>3</sup> and Aggressive<sup>4</sup> orders<sup>5</sup>;
  - Percentage of executed clients' orders that were Directed orders<sup>6</sup>.

The above information is available at the following address:

<https://www.hsbc.lu/en-gb/private-banking>

#### **h. Amendments to this Policy**

The Bank may amend this Best Execution Policy without prior notification at any time as it deems necessary. Where a material change has occurred in the Bank's Best Execution Policy, including changes to the list of execution venues on which the Bank places significant reliance, the Bank will inform its clients whether by publishing these on its website or by written and/or electronic notification in the form of an amended Best Execution Policy.

#### **i. Client information request**

The client is entitled to make reasonable and proportionate requests for information about the Bank's policies, arrangements and how they are reviewed by the Bank. The Bank undertakes to answer as clearly as possible and within a reasonable time.

This Summary of the Best Execution Policy is available online at the following address:

<https://www.hsbc.lu/en-gb/private-banking>

<sup>3</sup> Passive Order: an order that provides liquidity to the market.

<sup>4</sup> Aggressive Order: an order that takes liquidity from the market.

<sup>5</sup> Information on Passive and Aggressive orders are not applicable to the Bank.

<sup>6</sup> Directed Order: an order where a specific Execution Venue was specified by the client prior to the Execution of the order.

**Annex 1: Main execution venues used by HSBC Private Bank (Luxembourg) S.A. and importance given to each execution factor by category of financial instrument**

The information contained in the following table concerns both retail client orders and professional client orders.

Asset Class	Execution / Reception and Transmission of orders	Factors Priority	Execution Venues
<b>Equities and other Exchange-traded instruments (ETFs)</b>	Reception and Transmission of orders	1. Price 2. Costs 3. Likelihood of execution and settlement 4. Speed 5. Size of the trade 6. Nature of the trade 7. Other factors	- HSBC Securities London - HSBC Securities New York - Merrill Lynch International London - Kepler Cheuvreux Paris - Goldman Sachs International London
<b>Listed Derivatives</b>	Reception and Transmission of orders	1. Price 2. Costs 3. Likelihood of execution and settlement 4. Speed 5. Size of the trade 6. Nature of the trade 7. Other factors	- HSBC Securities London
<b>Fixed Income</b>	Execution	1. Price 2. Costs 3. Likelihood of execution and settlement 4. Speed 5. Size of the trade 6. Nature of the trade 7. Other factors	- Bloomberg MTF - MarketAxess MTF
<b>FX &amp; PM, including FX Options (Flow Orders)</b>	Execution	1. Price 2. Costs 3. Likelihood of execution and settlement 4. Speed 5. Size of the trade 6. Nature of the trade 7. Other factors	- The Bank as principal
<b>FX &amp; PM, including FX Options (Non-Flow Orders)</b>	Execution	1. Price 2. Costs 3. Speed 4. Likelihood of execution and settlement 5. Size of the trade 6. Nature of the trade 7. Other factors	- The Bank as principal
<b>OTC Derivatives</b>	Execution	1. Price 2. Costs 3. Speed 4. Likelihood of execution and settlement 5. Size of the trade 6. Nature of the trade 7. Other factors	- The Bank as principal
<b>Primary and secondary market, funded and unfunded Structured Products</b>	Execution	1. Price 2. Costs 3. Likelihood of execution and settlement 4. Speed 5. Size of the trade 6. Nature of the trade 7. Other factors	- HSBC Continental Europe France - Barclays Bank Paris - Morgan Stanley London - Credit Agricole Corp Paris - BNP Paribas Arbitrage Paris
<b>Mutual Funds &amp; Alternatives</b>	Reception and Transmission of orders	1. Fund manager/administrator	- FundSettle Euroclear - HSBC Private Bank (Suisse) S.A. - BNP Paribas SA Paris - BNP Paribas Securities Services