

# **Order Execution Policy**

**Adopted by the CEO 22 January 2019**

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## 1. Introduction

Provisions laid down in the revised Markets in Financial Instruments Directive 2014/65/EU and implementing measures as transposed into national laws and regulations (“**MiFID II**”) require Pareto Securities to take all sufficient steps to attain the best possible result for clients when executing, or receiving and transmitting, orders on their behalf.

This document constitutes our order execution policy (the “Policy”), effective from 2 January 2018 and revised 22 January 2019. It describes the arrangements and procedures Pareto Securities undertakes in order to comply with the best execution requirements in MiFID II.

The measures, processes, principles, and their upkeep, detailed in the Policy, shall be of a nature that Pareto Securities deems sufficient to achieve the best possible outcome on a consistent basis.

## 2. Scope

The Policy applies to the Pareto Securities group<sup>1</sup> as a whole (“Pareto”) insofar as execution of client orders is concerned.

The Policy applies to transactions executed on behalf of both professional and non-professional clients. However, it does not apply to professional clients who are eligible counterparties.

## 3. Our activities and capacity

As an agency broker Pareto works in the best interest of its client. In no asset class does Pareto internalise in any substantial or systematic way, and consequently Pareto does not consider itself to be an execution venue under the systematic internaliser regime. Only in exceptional circumstances will Pareto be dealing with clients in a non-agency capacity.

Pareto may execute orders under its own membership, but may also transmit orders to third parties for execution. In both instances Pareto owes our clients best execution and adherence to this Policy. Consequently Pareto takes upon itself to monitor and regularly assess the effectiveness of third party broker arrangements.

## 4. Market types

Pareto is active in an agency capacity in order driven markets and price driven markets.

### Order driven markets

Order driven markets are trading environments where buyers and sellers display prices at which they wish to buy or sell specified amounts of particular instruments. Order driven markets are characterised by a measure of transparency. Since the best bid and offered prices often apply to

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<sup>1</sup> Pareto Securities AS and Pareto Securities AB with all their EEA branches, Pareto Securities AG, Pareto Securities Oy, Pareto Securities Ltd., Pareto Securities Inc., Pareto Securities Pte. Ltd. and Pareto Securities Pty. Ltd.

modest liquidity, these markets are normally also characterised by the convention that brokers execute client orders with a certain measure of discretion.

- Mostly equities and equity-like instruments which are admitted to trading on a trading venue
- Some illiquid equities

#### **Price driven markets**

Price driven markets are characterised by less transparency than order driven markets. In price driven markets clients normally take a more active part in price discovery through negotiations.

- Some illiquid equities, such as shares in project companies
- Non-equity instruments, such as, but not limited to bonds

The market type or context in which the financial instrument is being transacted has implications for how the best execution requirements apply.

### **5. Specific instructions from the client**

If the client issues specific instructions as to how an order shall be executed, such order will be executed in accordance with those instructions to the extent possible. If reasons exist which make it impossible for Pareto to accept the client's instructions, the client shall receive from Pareto timely notification of that fact. Breach of venue trading rules or suspected market abuse could constitute such reasons.

Best execution requirements shall not apply to those parts of the execution which are covered by the instructions. Orders placed and executed by way of direct electronic access shall inherently be seen as specifically instructed with regard to all aspects of the orders.

Clients should be acutely aware that placing specific instructions on orders to trade may prevent Pareto from adhering to this Policy for the purposes of ensuring the best possible outcome.

### **6. Legitimate reliance on Pareto Securities**

Reference is made to section 4 regarding price driven markets. Where an instrument is traded in a price driven market environment Pareto considers each bid or offer from the client to constitute an order with specific instruction, to pay or to ask, a price for the volume in question. Thus the prime execution factor to be agreed upon in such negotiations is price. Since the price is specifically covered by the instruction, Pareto considers best execution to have been achieved for such negotiated deals unless the client can invoke legitimate reliance on Pareto to protect their interests in this respect.

The assessment of whether best execution requirements are applicable to Pareto's activities in price-driven markets will depend on the following four factors:

1. By whose initiative did the transaction come about?
2. Is the client professional or non-professional?

3. How equitably is transparency shared between the client and Pareto?
4. Other subjective factors

**Initiative:**

If Pareto takes the initiative that leads to a transaction, other things equal, it is more likely that the client may legitimately invoke reliance on Pareto to protect his or her interests with regard to best execution. If the client initiates the transaction, it is less likely. Pareto does not consider mere reflection of flow information to constitute an initiative to trade, even though it may constitute an opportunity to transact.

**Client type:**

Non-professional clients can always place legitimate reliance on Pareto to protect his or her interests. However, in respect of price negotiations Pareto considers its responsibility to limit itself to advising the non-professional client to trade away if it is obvious that other firms should be able to source the liquidity at a better price.

If the client is professional, it is less likely that the client may legitimately invoke reliance on Pareto to look after his or her interest with regard to best execution.

**Market pre-trade transparency:**

The more equitably market transparency is shared between the client and Pareto, the less likely it is that the client may legitimately invoke reliance on Pareto to protect his or her interests. The lesser Pareto's market share in a financial instrument, the more likely it is that Pareto will be in transparency enhancing price competition. If that is the case, and market convention is that clients shop around, the client can hardly invoke legitimate reliance.

**Other subjective factors:**

Every order should be considered individually and the four factors should be seen in conjunction. Other subjective factors relevant to the assessment of legitimate reliance are conceivable.

From time to time clients entrust Pareto with discretion to provide execution of orders in instruments otherwise normally associated with price driven market conditions. In such cases the client shall be considered to have legitimate reliance.

## **7. Execution factors**

Pareto is required take all sufficient measures necessary to achieve the best possible result for the client. This effort shall be assessed based on fulfilment of the following relevant execution factors:

- Price
- Volume
- Speed of execution
- Likelihood of execution
- Execution costs
- Other considerations such as need to minimise footprint or risk of signalling
- Likelihood of settlement

The execution factors mentioned above are the yardsticks by which the quality of an execution can be relevantly measured.

## **8. Execution variables**

The degree of relevance attached to each execution factor may vary as a subjective function of one or more of the following variables:

- The client's instructions
- The client's preferences
- The order's characteristics
- The instrument's characteristics
- The characteristics of the trading venues on which parts of the order can be filled
- The prevailing market conditions and other circumstances of importance
- Other criteria are conceivable

The client's specific instructions or standard preferences may point to the achieved price compared with a given post-trade benchmark as the paramount execution factor. If a different post-trade benchmark should stand out as more relevant on account of the other variables above, the client's instruction shall nevertheless take precedence.

In the absence of such instructions or preferences Pareto's sales trader or execution operator will make the assessment of which execution factors to prioritise based on the remaining variables or criteria.

Unless a variable or criterion dictates otherwise, an order to trade an illiquid instrument will be executed with a liquidity seeking strategy. Pursuing a liquidity seeking strategy entails attaching a relatively high priority to likelihood of execution of the order as a whole, or meaningful sizes thereof.

Pareto reserves the right, on its traders' discretion, to route child orders directly to single lit venues. The rationale may be to access visible liquidity, often of a fleeting nature, when this is deemed to be in the client's best liquidity seeking interest. Doing so may also be motivated by reluctance to risk suffering consequences of potential signalling.

## **9. Non-professional clients vs. professional clients**

For non-professional clients, where the best possible result is determined in terms price, price shall be measured in terms of total consideration due or paid.

The provision regarding total consideration paid is specifically governed by the Directive. However, Pareto does not discriminate between non-professional and professional clients.

## **10. Venues**

Pareto seeks to be connected to the most relevant venues, hereunder conditional venues, as Pareto is obliged to source the best liquidity at the best price. In choice of venues, Pareto is pragmatic.

Where applicable, Pareto routes client orders to the venues which are best suited to achieve the best volume at the best price on a consistent basis.

Pareto has access to the following types of venues:

- Regulated Markets (RM)
- Multilateral trading facilities (MTF)
- Organised trading facilities (OTF)
- Systematic internalisers (SI)
- Market makers (MM)
- Liquidity providers (LP)

Pareto will normally trade on venue when possible. Orders as a whole or parts thereof may nevertheless be executed by riskless matching of interests as negotiated deals. Pareto will always seek to have any necessary waiver in place in order to report such trades to a venue under that venue's rules. Such negotiated deals are considered executed on venue. Pareto cannot rule out, however, that strict adherence to all parts of these policies nevertheless shall require Pareto to negotiate deals, or in other ways access liquidity, that have to be considered done off venue for purpose of MiFID II.

## **11. Electronic routing of orders**

Pareto is committed to having effective and stable arrangements in place in order to electronically access trading venues.

## **12. Execution costs**

Pareto's venue selection is based on liquidity capture and likelihood of settlement, not venue fees. Pareto does not pass on venue fees to clients, except under special circumstances, or unless pre-agreed with the client. Neither is venue choice made on the basis of such fees. Pareto will, however, consider transaction taxes to be payable by the client.

Pareto does not receive any inducements to preference venues when routing orders.

## **13. Order handling**

Pareto will execute client orders sequentially and in order of timeliness unless Pareto is of the view that the best possible outcome according to this Policy is achieved by aggregating. Aggregation of orders will only take place if refraining from doing so is likely to work to the detriment of the individual conflicting client orders.

When aggregating orders Pareto takes care to allocate fills fairly to each single order. Normally a pro-rata approach will be used, but in some circumstances all orders may be treated as equal.

Pareto hardly ever engages in own account trading. Potential conflicts of interest associated with allocation of fills between client orders and Pareto's own book may nevertheless arise. In such cases the client's best interest shall take precedence.

Upon the receipt of limit orders that cannot be immediately executed in the market, Pareto may decide at its own discretion whether to publicise the order or parts thereof in the market, unless Pareto received other instructions from the client.

## **14. Asset classes**

This section describes the asset classes in which Pareto offers execution. The terms used in this section have already been described in more elaborate detail. Therefore their mention here may be of a brief nature.

### **Equities and equity-like instruments traded on venue**

Listed equities and exchange traded funds (ETFs) are considered by Pareto to be subject to order driven market conditions. As mentioned above, Pareto will when relevant and possible, execute client orders according to clients' specific instructions. Issuing specific instructions could prevent Pareto from adhering to the Policy.

The overarching principle is to seek to source the best volume at price unless other execution factors take pre-eminence. As mentioned in section 12, Pareto makes venue choices on the basis of liquidity capture, without taking venue fees into consideration. Pareto does not receive inducements from venues.

Pareto also offers trading capabilities in exchange traded notes (ETNs) as well as standardised equity derivatives listed on regulated markets whose underlying instruments are also listed. These instruments are more risky assets than their underlying instruments on account of, but not limited to, the implicit leverage they entail. However, these instruments are subject to the regulated markets' trading rules; execution takes place in an order driven environment as explained in section 4.

### **Equities and equity-like instruments not traded on venue**

These instruments, hereunder shares in limited or internal partnerships, are normally considered to be subject to price driven market conditions as explained in sections 4 and 6. Pareto will conclude a trade with another Pareto client or with another investment firm as applicable. Pareto will, through a price discovery process, in which the client normally is an actively instructing part, seek to achieve a price that is reasonable given the market position.

In the event that the client(s) place(s) full discretion on Pareto to execute an order to purchase or sell such instruments, Pareto will look after both sides of the transaction with the same care. This means fixing the price at a level which is considered to constitute the best possible outcome for both the buyer and the seller given Pareto's best estimate of supply and demand for the instrument.

### **Bonds, notes and other non-equities traded on venue**

Pareto considers such non-equities to be subject to price driven market conditions as explained in sections 4 and 6. Pareto will through a price discovery process, in which the client is an actively



instructing part, seek to achieve a price that is reasonable given the market position. Even though these instruments are formally traded on a trading venue, trading isn't normally subject to continuous electronic matching. Hence Pareto will not route client orders to any venue except in special circumstances. Where possible, however, Pareto reports concluded trades in a timely fashion to the venue under whose rules the trades were concluded.

In the event that the client(s) place(s) full discretion on Pareto to execute an order to purchase or sell such instruments, Pareto will look after both sides of the transaction with the same care. This means fixing the price at a level which is considered to constitute the best possible outcome for both the buyer and the seller given Pareto's best estimate of supply and demand for the instrument.

#### **Bonds, notes and other non-equity instruments not traded on venue**

Pareto considers such non-equities to be subject to price driven market conditions as explained in sections 4 and 6. Pareto will through a price discovery process, in which the client is an actively instructing part, seek to achieve a price that is reasonable given the market position.

In the event that the client(s) place(s) full discretion on us to execute an order to purchase or sell such instruments, Pareto will look after both sides of the transaction with the same care. This means fixing the price at a level which is considered to constitute the best possible outcome for both the buyer and the seller given Pareto's best estimate of supply and demand for the instrument.

#### **Unlisted fund units**

Pareto offers connection to an independent mutual fund distributor. Orders in such funds are transmitted to the distributor. Execution is done by the fund manager according to the rules of the fund. In order to make sure the investor achieves a fixing based on the same day's net asset value, Pareto needs to receive the order no later than a defined a cut-off time. The cut-off time is specified on Pareto's client web portal.

Pareto does not require any direct remuneration from the client when transmitting orders to trade funds. Investments in mutual funds are subject to annual management fees set and charged by the fund manager. Pareto receives as inducement, indirectly, a portion of those management fees via the distributor.

The portal gives Pareto's clients efficient access to a selection of mutual funds which offer a wide variety of geographic, sector-wise and instrument type exposures.

Pareto does not provide investment advice in relation to investment in particular funds.

## **15. Impediments**

Pareto cannot rule out the occurrence of unanticipated trading impediments, caused internally or externally. Such impediments could make it impossible to process client orders. Clients are encouraged to make sure orders have been acknowledged by Pareto and to always monitor order status and progress.

## **16. Monitoring and recording**

### **Regular reviews**

Pareto monitors the effectiveness of its execution capabilities in regular reviews in which:

- Pareto gauges and records its effectiveness in sourcing best price on a fill by fill basis. Exceptions are subject to follow-up action.
- Pareto gauges and records its effectiveness in sourcing best price on aggregate.
- Pareto makes post-trade sample checks of single orders focused on achievement versus benchmarks.

### **Periodic assessments**

The results obtained in the regular reviews are discussed in periodic assessment meetings. These meetings assemble resources from compliance, trading desk and trading system management. Decisions regarding venues, sell side brokers, or any other arrangement with implications for Pareto's execution capabilities may be made in these meetings.

The Policy will be subject to an annual review and upkeep. However, decisions of material consequence made in the periodic assessment meetings will occasion Policy updates.

## **17. Publication**

Pareto is under the requirement to make publically available certain information on the top five execution venues to which it routes and execute client orders. This information can be accessed on our public website: [www.paretosec.com](http://www.paretosec.com)