



National  
Australia  
Bank

# **NATIONAL AUSTRALIA BANK LONDON**

## *FICC Order Execution Policy*

*October 2017*

# NAB LONDON *FICC order execution policy*

---

## CONTENTS

<b>1</b>	<b>Introduction .....</b>	<b>3</b>
<b>2</b>	<b>Coverage / Scope.....</b>	<b>4</b>
2.1	Client type.....	4
2.2	Product type .....	4
2.3	Transaction type .....	5
2.3.1	<i>Request for Quote .....</i>	<i>5</i>
2.3.2	<i>Specific Instructions.....</i>	<i>5</i>
2.3.3	<i>Other methods of executing an order.....</i>	<i>5</i>
2.4	Execution venue .....	6
2.5	Consent to execute outside a trading venue .....	6
2.6	Mandatory trading of derivatives on trading venues .....	6
2.7	Informing clients about NAB London's execution policy .....	6
2.8	Payment for Order Flow.....	6
<b>3</b>	<b>Application.....</b>	<b>7</b>
<b>4</b>	<b>How NAB London achieves best execution and price fairness.....</b>	<b>8</b>
4.1	Identification of transactions to which best execution applies.....	8
4.2	Prioritisation of execution factors .....	8
4.3	Price formation.....	9
4.3.1	<i>Price formation for derivatives.....</i>	<i>9</i>
4.3.2	<i>Price formation for debt securities.....</i>	<i>9</i>
4.3.3	<i>Price formation for securities financing transactions .....</i>	<i>9</i>
4.4	Best execution in respect of price .....	10
4.5	Fairness.....	10
<b>5</b>	<b>Monitoring.....</b>	<b>10</b>
<b>6</b>	<b>Accountability .....</b>	<b>11</b>

# NAB LONDON *FICC order execution policy*

---

## 1 Introduction

This policy sets out the approach of National Australia Bank's FICC business in London (NAB London)<sup>1</sup> to providing best execution, as required by Directives 2004/39/EC and 2014/65/EU on Markets in Financial Instruments (collectively and together with all relevant supporting technical standards, directives, regulations and rules, MiFID). MiFID requires NAB London to take all sufficient steps to obtain the best possible result for its clients, taking into account price, costs, speed, likelihood of execution and settlement, size, nature and/or any other relevant order execution consideration when executing orders on behalf of clients. See *3 Application* below in relation to when execution is "on behalf of a client".

This policy is informed by the Thematic Review TR14/13 *Best Execution and payment for order flow* issued by the Financial Conduct Authority (FCA) in July 2014.

Notwithstanding the applicability of this policy to particular client dealings, NAB London will comply in all its client dealings with the FCA's Principles of Business. In particular, in accordance with Principle 6 NAB London will pay due regard to the interests of its clients and treat them fairly.

NAB London will apply this policy consistently to all clients and follow other applicable procedures to ensure prompt, fair and expeditious execution of client orders, including relative to other client orders or the trading interests of National Australia Bank Limited and its related entities.

This document is divided into the following sections:

**Coverage/Scope** – what the best execution obligation is, background on the nature of NAB London's different client dealings and information about how NAB London will conduct such dealings.

**Application** – NAB London's assessment of when best execution is owed.

**How NAB London achieves best execution and price fairness** – the policy applied by NAB London to ensure that it meets its obligation to provide best execution when it is owed.

**Monitoring** – the monitoring undertaken to assess the effectiveness of this policy, the events that may lead to changes in the policy and how changes will be communicated to clients.

**Accountability** – who has responsibility and ultimate accountability for ensuring that NAB London's arrangements in respect of best execution obligations (to clients and Regulators) are adequate, applied consistently and delivering good client outcomes.

---

<sup>1</sup> NAB London includes all business units and staff situated in the NAB London Branch who deal in the products referred to in *2.2 Product type*. For the purposes of this policy the term applies to trading in the name of National Australia Bank Limited, London Branch or NAB Europe Limited.

# NAB LONDON *FICC order execution policy*

---

## 2 Coverage / Scope

The overarching best execution obligation requires NAB London to take all sufficient steps to obtain the best possible result for its clients, taking into account a range of execution factors, when executing orders on behalf of clients (or transmitting orders to other entities to execute). FCA rules require firms to assess the relevant importance of the execution factors, namely: price, costs, speed, likelihood of execution and settlement, size, nature of the order and any other consideration relevant to the execution of the order, in order to effectively provide best execution.

To achieve this, NAB London takes into account:

- characteristics of the client, including the categorisation of the client – see 2.1 *Client Type* below;
- the order/transaction;
- the financial instruments within that order/transaction; and
- the execution venue the order is directed to, if any.

The determination as to when best execution is required for a particular transaction is addressed in 3 *Application*.

### 2.1 Client type

NAB London will only trade products within the scope of MIFID with clients of National Australia Bank Limited (NAB) or NAB Europe Limited (NEL) that are categorised as either Professional Clients or Eligible Counterparties. It is not within NAB London's appetite to transact such products with clients categorised as Retail, and it does not do so. Further, the best execution obligation is not owed to Eligible Counterparties. Accordingly, this policy applies only to NAB London's dealings with Professional Clients.

### 2.2 Product type

The products covered by this policy are those MiFID financial instruments sold by NAB London, namely:

- Interest Rate Derivatives
- Credit Derivatives
- Inflation Derivatives
- Foreign Exchange Rate Derivatives
- Commodity Price Derivatives
- Securities Financing Transactions
- Debt Securities

Unless stated otherwise, all parts of this policy apply to all of the above products. Considerations that are specific to particular products or circumstances may be relevant to determinations under 3 *Application* below.

# NAB LONDON *FICC order execution policy*

---

## 2.3 Transaction type

There are variations on the way in which NAB London executes transactions with clients and they may affect the manner in which best execution is achieved.

### 2.3.1 Request for Quote

NAB London deals with clients as principal on a request for quote (RFQ) basis, where it acts as a liquidity provider and clients transact at the price offered by NAB London.

A RFQ transaction may occur where the client approaches NAB London by telephone, electronic communication or on a multilateral platform. NAB London provides a price sought for a particular product and, if it is accepted by the client, the transaction is completed at the quoted price. RFQ also covers transactions that occur when NAB London publishes a price on an electronic platform which the client elects to transact at (regardless of whether there is human intervention prior to the execution).

In the absence of explicit agreement to provide best execution, the best execution obligation is only applicable where a client places a legitimate reliance on NAB London to protect its interests in relation to the execution of a transaction. In those cases, NAB London would be considered to execute on behalf of the client.

3 - *Application* describes the manner in which a client's reliance is assessed.

### 2.3.2 Specific Instructions

A "Specific Instruction" is an instruction in relation to an order for execution – for example, the specification of a particular price or a period of time for which the order may remain valid.

Where a client provides NAB London with a Specific Instruction in relation to an order (which may not specify all aspects of the order), NAB London will follow that instruction so far as is reasonably possible when executing the trade.

By following the Specific Instruction, NAB London will have satisfied the obligation to provide the client with best execution in relation to the relevant part of the transaction to which the Specific Instruction applied. Other aspects of that order not covered by such instruction may still be subject to the best execution obligation in accordance with the criteria laid out in this policy.

Any Specific Instruction from a client may prevent NAB London from taking the measures set out below (which are designed to obtain the best possible result for the execution of the transaction) in respect of the elements covered by the Specific Instruction.

### 2.3.3 Other methods of executing an order

NAB does not deal as an agent for clients (e.g. placing client orders with execution venues) or execute client orders by dealing as a riskless principal (i.e. dealing opposite sides of the same trade with a client and another counterparty at the same time).

## NAB LONDON *FICC order execution policy*

---

However, where NAB London is given any discretion (in respect to a worked order or otherwise), there will be reliance on NAB London and best execution will apply to the exercise of that discretion. A worked order is an order that is not immediately executable which NAB can book to the client's account without the need to re-confirm the price or any other factor. Note that a worked order will not necessarily involve discretion.

### 2.4 Execution venue

When NAB London executes with a client as principal the transaction may be on a trading venue (and that venue would be of the client's choice – as the client will have approached NAB London on that venue) or it may be off a trading venue, in which case NAB London will be categorised as an execution venue for the purposes of the specific transaction.

### 2.5 Consent to execute outside a trading venue

NAB London may execute all or part of a client's order outside of a trading venue. In accordance with FCA requirements NAB London has requested each client's consent to execute such orders in this manner, as part of NAB London's on-boarding documentation or otherwise.

### 2.6 Mandatory trading of derivatives on trading venues

When required by Article 28 of MIFIR<sup>2</sup> or other relevant regulation, NAB London will conclude derivatives transactions on a relevant trading venue in accordance with the requirements of such regulation.

### 2.7 Informing clients about NAB London's execution policy

NAB and NEL will provide information to their clients regarding this policy, in a durable format when issuing on-boarding documentation or when material changes are made to this policy (which will be in good time prior to any transaction to which the amended policy may apply).

### 2.8 Payment for Order Flow

Payment for Order Flow (PFOF) is where the investment firm receives commission from both a client placing an order and the counterparty with whom the order is executed. As stated in the Thematic Review TR14/13, "PFOF arrangements create a clear conflict of interest between the firm and its clients".

As a matter of policy, NAB London does not engage in any PFOF activity.

---

<sup>2</sup> Regulation (EU) No 600/2014 of the European Parliament and the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.

# NAB LONDON *FICC order execution policy*

---

## 3 Application

The best execution obligation arises where a firm executes orders on behalf of a client. As stated above, this will occur where the client places legitimate reliance on NAB London to meet the relevant best execution requirements.

NAB London generally trades in a principal capacity in response to clients' RFQs. As NAB London operates in a competitive market for the execution of clients' RFQs, the expectation is that clients have access to multiple dealers and pricing sources which are in competition. Best execution obligations are unlikely to apply in the RFQ context as there is unlikely to be legitimate reliance placed on NAB London to provide best execution.

Applying the four-fold test described below to NAB London's usual RFQ trading model and taking into account the markets in which NAB London operates, clients do not generally place reliance on NAB London. However, if NAB London becomes aware that this assumption may not be valid in relation to a particular transaction, NAB London will determine whether or not the client legitimately relies upon it in relation to pricing and other important elements of the transaction. A suggestion that a client may rely on NAB London could arise as a result of the client indicating that it does so or from various other factors. If the client does rely on NAB London in this way then the best execution obligation will be deemed to apply.

Where the circumstances suggest that NAB London's usual assumption may not apply, NAB London applies a four-fold cumulative test to determine whether the client legitimately relies upon NAB London and is therefore owed best execution. The four factors are listed below and are considered collectively with no particular factor necessarily being determinative:

### 1. Who initiated the transaction?

Where the client initiates the transaction it is less likely that the client is placing legitimate reliance on NAB London. In circumstances where NAB London communicates trade ideas, market communications or indicative prices as part of general business this will not necessarily constitute initiation of the transaction.

### 2. Is it market practice for clients to "shop around" by approaching several dealers for quotes?

Where market practice for a particular asset class or product suggests that clients will have ready access to various providers of quotes and clients have the ability to shop around, it is less likely that clients will be placing legitimate reliance on NAB London. This will be the case for the majority of NAB London's transactions. However, NAB London will consider cases where the circumstances suggest otherwise.

### 3. Is there price transparency in the specific market?

# NAB LONDON *FICC order execution policy*

---

In circumstances where pricing information is transparent and the client is likely to have access to such information, it is less likely that the client will be placing legitimate reliance on NAB London. The availability of multiple quotes is indicative of price transparency. However, a significant disparity of pricing information could suggest otherwise.

#### **4. Has the information provided to the client suggested best execution is owed, or is there an agreement that NAB London will provide best execution?**

NAB London's terms of business do not state or suggest that best execution is owed and accordingly this factor should not contribute to the likelihood of best execution being owed.

## **4 How NAB London achieves best execution and price fairness**

### **4.1 Identification of transactions to which best execution applies**

NAB London will implement procedures including training to ensure that transactions where best execution applies are identified so that this policy and related procedures are applied in appropriate cases.

See also 2.3.2 *Specific Instructions* above.

### **4.2 Prioritisation of execution factors**

When best execution applies to a transaction, NAB London will take the following execution factors into account: price, costs, speed, likelihood of execution and settlement, size and the nature of the particular transaction.

NAB London considers that the most important consideration will usually be price.

While costs are difficult to distinguish from price in the principal-to-principal context, for the purposes of NAB London's obligations in respect of MIFID, NAB London regards costs as the amount of the aggregate adjustment (known as spread) referred to below under 4.3 *Price formation*, where it is possible to identify such separate amount. This factor depends on a number of variables, including the internally required rate of return. Rate of return is subject to the pricing guidelines (referred to below), but it is also a commercial consideration for NAB London and will not be the same for all clients. In the RFQ context, there are no third party costs to consider. The term "price" may refer to the market element of the price or to the overall price offered to the client (including any costs) as the context requires.

NAB London considers speed to be an important factor for clients. This is managed by NAB London's close attention to client instructions and not dependent on any choice of execution method taken by NAB London.

Similarly, likelihood of execution and settlement are crucial to clients. As NAB London trades as principal, execution and settlement are certain subject to NAB London's operational processes.



# NAB LONDON *FICC order execution policy*

---

Size is not usually a constraint on client transactions. Where it is, it may be elevated to a higher position on the list of priorities and could affect the price.

Where the nature of the transaction requires, the order of priority may differ which will be considered on a transaction by transaction basis.

## 4.3 Price formation

### 4.3.1 Price formation for derivatives

For derivatives, NAB London will use appropriate market data to determine the mid-market price of an instrument. This mid-market price will form the base price which will be adjusted by various factors to determine the price quoted to the client. The factors may include an execution charge, credit charge and required return on equity. For a particular derivative transaction, these factors will be influenced by NAB's portfolio position in respect of the particular client and may be influenced by NAB's overall portfolio position. The application of these factors will be governed by the pricing guidelines, which are internal guidelines covering various pricing considerations.

The price will be further adjusted to reflect NAB's trading preferences based on positions it holds (e.g. NAB London may prefer to be a buyer or seller and may adjust its pricing to reflect this).

Price formation works the same way for all principal-to-principal trades, regardless of whether they are worked order, except that worked orders will generally require the underlying market to move to permit a trade to be executed at a desired price.

### 4.3.2 Price formation for debt securities

For transactions in debt securities, NAB London will consider market data to establish the prices at which it is willing to buy or sell. NAB London's prices will be prices that it considers reasonable for the product type, tenor and size of the trade in accordance with the pricing guidelines. NAB London may make a market in certain debt securities by maintaining and publishing bid and offer prices for those securities. In some situations NAB London's bid and/or offer prices will be influenced by NAB's trading preferences based on positions it holds. Where NAB London wishes to fill a client need to purchase debt securities which are not held by NAB, then this will constitute working an order. In that case, NAB London will seek to purchase the debt securities, as principal, and base the price charged to the client on the price at which the securities are purchased (with an adjustment in accordance with the pricing guidelines).

### 4.3.3 Price formation for securities financing transactions

For securities financing transactions, the pricing is simply the interest rate paid or received by NAB London, which NAB London determines by reference to an observable market benchmark and subject to the pricing guidelines. This price does not depend on market execution factors as it is based on the benchmark and dependant on commercial factors (as are NAB London's other lending and deposit rates).

## **NAB LONDON** *FICC order execution policy*

---

### **4.4** Best execution in respect of price

Where best execution is owed by NAB London, best execution will be ensured for its clients by:

- in the case of derivative transactions, using appropriate market data to ensure that the base price accurately reflects the market price.
- in the case of transactions in debt securities, obtaining quotes and/or using appropriate market data to ensure that the price accurately reflects the market price. Where the illiquidity of the instruments does not permit such data to be obtained, NAB London will enter into bespoke arrangements appropriate to the circumstances to protect the client's interests.
- in the case of securities financing transactions, disclosing the interest rate.

Note that in the case of severe market dislocation, there may be limits on the availability of market data required to establish mid-market prices and some elements of the pricing guidelines may not be applicable. In such cases, we shall make best efforts in light of the circumstances in respect of obtaining appropriate market data.

NAB London will ensure that relevant market data justifying the market price is captured in readily accessible records.

NAB London will monitor the manner in which it obtains appropriate market data to ensure that it remains a true reflection of the market.

### **4.5** Fairness

By applying the process set out above (including consistent application of its pricing guidelines), NAB London will ensure the fairness of its overall price in over the counter transactions where best execution applies.

## **5** Monitoring

NAB London will monitor the pricing of transactions to which best execution applies to assess compliance with the policy.

NAB London will also monitor the effectiveness of this policy in order to identify and, where appropriate, correct any deficiencies. To achieve this, NAB London will review this document annually and whenever there are any material changes to either the way NAB London does business or the types of clients that NAB London transacts with, including anything that affects NAB London's ability to continue to obtain the best possible result for clients.

Any updates to this policy will be effective within 3 months of the review. NAB London will notify its clients of any material changes to this policy resulting from any monitoring or review prior to the changes taking effect.

# NAB LONDON *FICC order execution policy*

---

NAB London will publish data on execution quality in relation to transactions to which best execution applies in accordance with the relevant requirements of MiFID.

## **6 Accountability**

Head of FICC London is responsible for policy reviews, corrections and updates, as well as the arrangements and adequacy of monitoring. All changes are approved by Operational Risk & Compliance.