

## 42 Financial Services Execution Policy

This Execution Policy is applicable to broker services provided to you by 42 Financial Services (“42FS”) in accordance with Article 27 of MiFID II. This Execution Policy is liable to be amended from time to time.

### Introduction

When providing brokerage service to clients in relation to financial instruments (as set out in Annex 1), 42FS will take reasonable steps to achieve the best overall trading result for client. This means that 42FS will aim to provide “best execution” subject to and taking into account the nature of client’s orders, the prices available to 42FS in the market, the nature of the market in question and a reasonable assessment of the sometimes overlapping and conflicting execution factors (which are detailed below).

42FS’s intention is, so far as possible, to exercise consistent standards and operate the same processes across all markets, clients and financial instruments in which 42FS operates.

42FS also intends to provide market participants with access to (where possible) tradable prices on a nondiscriminatory basis. However, the diversity in those markets and instruments, what 42FS knows of clients’s own trading intentions, and the kind of orders that client may place, mean that different factors will have to be taken into account in relation to any particular transaction.

Annex 2 to this document provides further detail on the nature of the service 42FS, as an InterDealer-Broker (IDB), provides to its clients.

### Transmission of orders

42FS may transmit an order for execution to another entity, such as an affiliate of 42FS or another broker with which 42FS has signed agreement of cooperation. In these circumstances the 42FS will continue to act in accordance with the client’s best interests by taking into account all relevant execution factors and criteria specified for „best execution“.

### Exemptions from the provision of Best Execution

Notwithstanding the intentions expressed above, 42FS does not undertake to provide “best execution” if you fall within any of the following exemptions:

#### Eligible Counterparties

If you are classified as an Eligible Counterparty you will not be entitled to best execution under EU rules. This is in line with Article 30(1) of Directive 2014/65 which provides that the best execution obligation under Article 27 will not apply.

#### Market Practices

In the wholesale OTC derivatives and bond markets (and for the avoidance of doubt this would include derivatives in Equities, Energy and Commodities) in which 42FS operates (and as recognised by the European Commission) it is normal market practice for buyers and sellers to “shop around” by approaching several brokers/dealers for a quote. In these circumstances there is no expectation between the parties that the broker/dealer chosen will owe best execution.

As a sophisticated participant in the wholesale markets, unless you advise us to the contrary we will assume that this is your normal trading behaviour.

#### Transactions arranged in a name passing capacity

Brokers acting in a name passing capacity (as described in Annex 2) are receivers and transmitters of orders but in carrying out their activities they do not receive and transmit orders for execution. Where orders are not transmitted for execution, the requirement to provide best execution will not apply.

#### Client Instructions

Where you provide the 42FS with a specific instruction in relation to your entire order, or any particular aspect of your order, including an instruction for your trade to be executed on a particular venue, 42FS will execute the order in accordance with your instructions. However, please note that in following your instructions, 42FS will be deemed to have taken all reasonable steps to provide the best possible result for you in respect of the order, or aspect of the order, covered by your specific instructions.

Note that when you give an offer, take a bid or place an order on a multilateral trading facility (OTF), the best execution provisions of MiFID will not apply to the operator of the OTF and these obligations will fall on the user of the system. Your order will be classified as a specific instruction and hence the best execution provisions of MiFID will not apply.

#### **Clients**

Except in exceptional circumstances, 42FS will only deal with Eligible Counterparties and Professional Clients as defined in MiFID.

Because 42FS always intends to handle orders and expressions of interest in an equitable and consistent manner, once a client is classified as an Eligible Counterparty for the purposes of a particular instrument, that client may not then elect to be re-classified for the purposes of one transaction of a type it customarily undertakes. Exceptional circumstances may be taken into account at the time, with the consent of 42FS (42FS may decline to provide a service should a reclassification be requested).

#### **Execution Venues**

42FS is able to transact trades on your behalf on any of the following execution venues:

- Any Organized Trading Facility (OTF) operated by the 42FS;
- A Multilateral Trading Facility (MTF)
- a Systematic Internaliser (SI);
- a Market Maker;
- other Liquidity Providers;
- Various Regulated Markets (RM) to which 42FS has access;
- 42FS's client base in the over the counter (OTC) markets under certain conditions.

When selecting the venue on which to transact trades 42FS will take reasonable measures to ensure that the selected venue obtains the best possible trading result for its clients, subject to the following factors:

- In the OTC markets in which 42FS operates, it can only execute orders outside Execution Venues, if 42 FS will obtain prior express client consent from client before execution of orders outside an Execution Venues;
- 42FS will provide details of all tradable bids and offers (subject to the other matters referred to below);
- Time availability of prices – in many markets there are lulls and spikes in trading as

negotiations align trading interests at different times and different parts of the curve, accordingly the “last traded” price may not always be available or act as a reliable indicator of current price;

- 42FS cannot allow clients to trade in a market unless it is reasonably satisfied that the client (via an agent or otherwise) is operationally capable of settling the relevant trade;
- 42FS cannot control either the cost of credit (credit premium) or credit acceptance between its clients;
- Rates of brokerage will vary between clients, based on agreements and levels of activity.

### **Execution Factors**

In the absence of express instructions from you, 42FS will exercise its own discretion in determining the factors that 42FS needs to take into account for the purpose of providing you with the best possible result.

In executing OTF orders, 42 FS OTF will consider the following factors in deciding how to execute the order, divided into electronic platform and voice trading system.

Electronic platform takes into account such execution factors in the wholesale markets in which 42FS operate. Execution factors will include, but are not restricted to, the:

- Price;
- Costs of execution;
- speed of execution and settlement;
- likelihood of execution
- size, nature and characteristic of the order;
- exchange settled block trades, or positions larger than standard market size, may be crossed at a particular stage in the trading day or kept anonymous to the majority of market participants; unless otherwise directed, 42FS will only show the price and size to parties that it believes may have an interest in executing or crossing such a position.

Voice trading system is more complex and will consider, besides the above mentioned factors, also the characteristics of the client. Such characteristics are:

- the list of approved counterparties provided by the client (credit list);
- the market and financial instruments that are subject of the order;
- the tenor of the trade.

### **Monitoring and review**

42FS will monitor the effectiveness of its order execution arrangements and order execution policy in order to identify and, where appropriate, incorporate any amendments to procedures. 42FS will assess, on a regular basis, whether the execution venues included in the order execution policy provide for the best possible result for its clients or whether 42FS needs to make changes to its execution arrangements. 42FS will review its order execution arrangements and order execution policy at least annually or whenever a material change occurs that affects its ability to continue to obtain the best possible result for the execution of client orders on a consistent basis using the venues included in its order execution policy. 42FS will notify you of any material changes to its order execution arrangements or order execution policy as described above by posting the information on the 42FS's website.

### **No Fiduciary Relationship**

42FS's commitment to provide you with “best execution” does not mean that it owes you any fiduciary

responsibilities over and above the specific regulatory obligations placed upon it or as may be otherwise contracted between 42FS and yourself. You remain responsible for your own investment decisions and 42FS will not be responsible for any market trading loss you suffer as a result of those decisions.

### **Third-party payments**

42FS will not receive any remuneration, discount or non-monetary benefit for routing client orders to a particular Execution venue which would infringe any of the requirements in relation to conflicts of interest. Where 42FS does receive third-party payments which do not infringe the requirements on conflicts of interest, the 42FS will inform clients about any inducements that the 42FS may receive from Execution Venues. The information will specify the fees charged by the 42FS to all counterparties involved in the transaction, and where the fees vary depending on the client, the information shall indicate the maximum fees or range of the fees that may be payable. Where the 42FS charges more than one participant in a transaction, (in compliance with Article 24(9) of MiFID II and its implementing measures), the 42FS will inform its client of the value of any monetary or non-monetary benefits received by the 42FS.

### **Annual Summary**

42FS will make public on an annual basis for each class of financial instrument, the top five execution venues where client orders were executed during the preceding year. 42FS will publish each annual summary on its website by 30<sup>th</sup> April the following year. The summary will include information on the quality of execution obtained by the Firm.

### **Information Request**

Where a client makes reasonable and proportionate requests for information about the 42FS policies or arrangements and how they are reviewed, the 42FS will respond clearly and within a reasonable time. The 42FS will respond to all reasonable and proportional requests from a client to demonstrate that it has executed orders received from that client in accordance with this policy. Furthermore, the 42FS will respond to any request from Czech National Bank to demonstrate that the 42FS has complied with the appropriate requirements in Article 27 of MiFID II.

## Annex 1 : Financial Instruments As Defined by MiFID

- (1) Transferable securities;
- (2) Money-market instruments;
- (3) Units in collective investment undertakings;
- (4) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
- (5) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event);
- (6) Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market and/or an OTF;
- (7) Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in (6) and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls;
- (8) Derivative instruments for the transfer of credit risk;
- (9) Financial contracts for differences;
- (10) Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an OTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.

## Annex 2 : 42FS as Inter-Dealer Broker

The main business of an inter-dealer broker (broker) is to provide access to over-the-counter and/or exchange traded pools of liquidity, across a full range of asset classes and their associated derivatives. Typically, brokerage activity takes place in the wholesale financial markets, which includes cash deposits, financial derivatives, securities, equities, commodities, energy and credit.

The primary function of a broker is to act as an intermediary through which other wholesale market participants can conclude transactions by the matching of their trading needs with third party wholesale market participants having reciprocal interests.

Trading is conducted on an 'arms length' basis with counterparties who do not rely on the advice of the broker. Typically, counterparties in these markets would be wholesale market participants consisting of clearing and investment banks, investment 42FSs, building societies, pension, public sector bodies, life and hedge funds etc and would not include any retail clients as defined under the MiFID.

The majority of the brokerage activities are based on the principle of matching fast moving bids and offers. Prices, orders and expressions of interest will be communicated across a variety of mediums, including telephone, electronic instant messenger, electronic display screen, or by an electronic trading system (Multilateral Trading Facility as defined by MiFID).

In each market, brokers will communicate to the counterparties whether bids and offers are '42FS' or 'indicative' – in most cases unless otherwise stipulated during the course of dealing, market quotes provided by brokers represent tradable prices based on counterparties' bids and offers and market information then available.

Brokers will endeavour to match the counterparties trading requirement or orders with other trading interests in the market. In most cases this means that brokers can only give the counterparty access to their own liquidity pools, and will pass prices or orders to and from its other counterparties. Brokers may use link brokers with whom they have a relationship in order to arrange a trade between the counterparty and a client of the linked broker.

Brokers, as instructed, will arrange trades on behalf of a counterparty, based either on a price or order that the counterparty has placed with them, or as con42FSed by the counterparty following a period of negotiation.

Brokers utilise price dissemination screens in their role as voice brokers, and illustrate an actual or indicative mid-market price based on actual trading, orders and expressions of interest. While brokers intend to provide counterparties with the most accurate and reflective view of current price levels, it may not be possible to actually trade at the displayed prices if a corresponding order is not then available.

Unless otherwise communicated to the counterparty before trading, all orders submitted to a broker's OTF platform will be traded on price/time priority. Counterparties will also be able to view full order depth. Execution occurs on the basis of active acceptance of orders in the system submitted by other users. Eligibility, trading methodology, instrument descriptions and credit parameters are all set out in the user terms for the relevant OTF.

Prices are given and trades executed, excluding brokers' brokerage (i.e. a clean price). Brokerage rates are as agreed between the counterparty and the broker by product, often with volume discounts or other fee discounts based on market making activity.

## **Business Models**

To facilitate this activity brokers engage their clients on both an electronic and voice basis. In most cases brokers arrange trades on a 'name passing' basis. However there are two other brokerage business models: 'matched principal' and 'exchange give-up'.

In the cash equity and fixed income products, brokers may act on a 'matched principal' basis to the trade in order to provide anonymity to ensure client confidentiality to its counterparties and may engage in aggregation of trades to reduce the number of settlement counterparties.

In the derivatives markets, where a derivative exchange exists, the broker receiving a client order may engage in exchange trading under its own or a third parties name in the capacity of an 'Executing Broker', as defined in the Futures and Options Association's International Uniform Brokerage Execution Services ('Give-Up') Agreement, and give-up the trade to a client's clearer before the close of the day. Under this 'exchange giveup' model the broker is subject to intraday exposure of this principal position until the trade is accepted by the counterparty. The purpose of this is to facilitate the instructions of the principal as a client.

## **Name Passing**

The name passing brokerage model is the traditional model, through which the broker takes on an arranging role in a transaction between two or more counterparties. The broker, through price dissemination, distributes quotes to other market participants showing both price and volume. For voice brokered products, these prices and volumes are dependant upon market convention, either 42FS or indicative levels of interest, and must be con42FSed prior to the trade being completed. For electronic brokered products through OTFs, these prices and volumes are typically 42FS and are traded without further communication.

Once the trade price, volume and terms have been agreed, either through further conversation with the broker or with the direct hit or taking of prices on an OTF, the counterparties' names are disclosed and the broker steps away from the transaction. Bilateral agreements are then enforced between the counterparties and the broker will invoice the brokerage fee on a monthly basis.

### Example: Name Passing



= **broker custodian**

<p>Step 1</p>		<ul style="list-style-type: none"> <li>• BROKER provides access to the OTC market place for trading.</li> <li>• BROKER facilitates quotes from clients and publishes them on an anonymous basis as an indication of the current market price.</li> </ul>
<p>Step 2</p>		<ul style="list-style-type: none"> <li>• Once BROKER has two or more interested clients, the price and trade terms are verified.</li> </ul>
<p>Step 3</p>		<ul style="list-style-type: none"> <li>• Once a trade has been confirmed as good, BROKER discloses the clients' names.</li> <li>• A bilateral trade is then formed between the two clients and BROKER steps out of the trade process.</li> <li>• BROKER sends a broker confirmation to each client.</li> </ul>
<p>Step 4</p>		<ul style="list-style-type: none"> <li>• At the end of the month, an invoice is sent to each client for the brokerage value for their trading activity.</li> </ul>

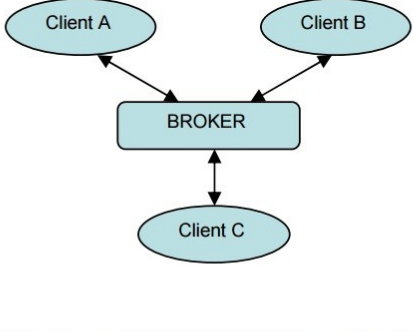
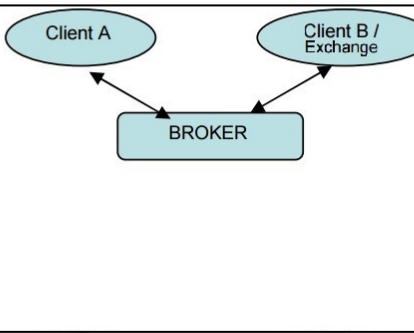
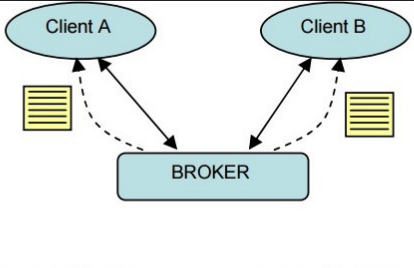
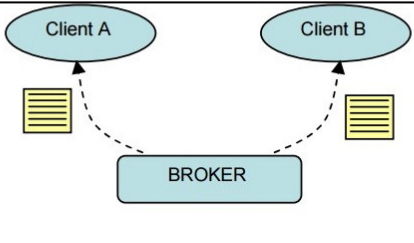


## Matched Principal

In the matched principal model, the broker facilitates its clients in anonymous trading activity in cash products by taking part in a matched transaction as principal. The broker can provide for its client's an indication of market prices and volumes for OTC cash products (e.g. investment grade bonds), or for exchange traded cash equity products the client can use the exchange as an indication of the market.

The broker will not trade speculatively for a client or for his own book in the market. The trade will only be executed as a result of a 42FS client order to buy or sell at a set price or size. Once the trade is complete, price, volume and terms are communicated through the broker and back office con42FSations. Settlement is made between each client based on the market convention with the brokerage fee, being either incorporated in the all-in price passed to the client through a disclosed brokerage or through a monthly invoice.

### Example: Matched Principal

<p>Step 1</p>		<ul style="list-style-type: none"> <li>• BROKER provides access to the OTC market place for the trading of illiquid cash fixed income transactions.</li> <li>• BROKER facilitates quotes from clients and publishes them on an anonymous basis as an indication of the current market price in the OTC market. This service is not required for Exchange based trading as the market rate is widely known.</li> </ul>
<p>Step 2</p>		<ul style="list-style-type: none"> <li>• For OTC transactions, once BROKER has two or more interested clients, the price and trade terms are verified.</li> <li>• For exchange based transactions, a firm client order is given (either volume or price) prior to the execution of the order against the exchange.</li> </ul>
<p>Step 3</p>		<ul style="list-style-type: none"> <li>• Once BROKER is certain of execution (or potential for execution) on both sides of an OTC trade, it confirms the trade against the two clients.</li> <li>• BROKER sends a confirmation to each client of the principal transaction.</li> </ul>
<p>Step 4</p>		<ul style="list-style-type: none"> <li>• Settlement is made with each client based on the market convention.</li> </ul>

## Exchange Give-Up

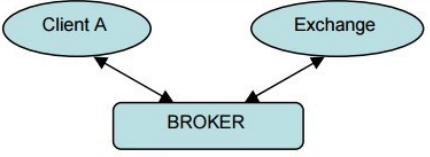
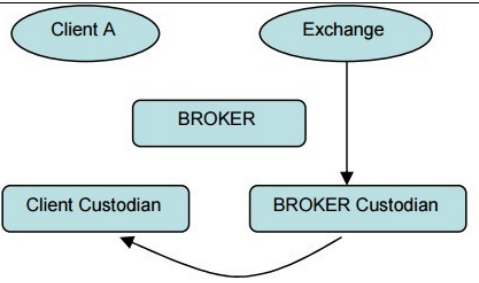
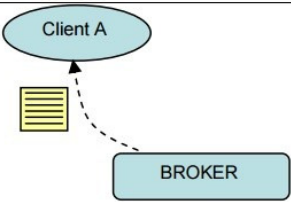
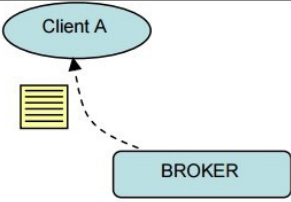
In addition to name passing and matched principal brokerage models, brokers can facilitate the trading activity of their clients on derivative exchanges (e.g. LIFFE, Eurex, CME, etc). Upon receiving the relevant price information from the broker, the client will instruct the broker to place an order on the appropriate exchange, either in its own name (if a member of the exchange) or through a third party. The broker can provide the client with an indication of the market based on the current price and volume activity on the exchange.

Once the execution has occurred, the executed position is then given-up to the client through the clearing services of the exchange clearing house. This process typically occurs within the day and so the broker will have no house position at the end of each day and will be flat. During the give-up process the broker will maintain a daylight position until the trade is taken up by the client.

At the end of each month, the broker will invoice the client for the trading activity during that month.

A derivation of this business model is where OTC trades are crossed on the exchange to provide the clients with a settlement process through a central counterparty (CCP settlement).

### Example: Exchange Give-Up

<p>Step 1</p>		<ul style="list-style-type: none"> <li>• BROKER provides an indication of the current trading level on the exchange to their clients, if required.</li> <li>• BROKER, on the back of a client order, hits/lifts the price and quantity on the exchange.</li> </ul>
<p>Step 2</p>		<ul style="list-style-type: none"> <li>• Once BROKER has executed the trade on the exchange, it is delivered directly into BROKER's house account at their custodian for that exchange.</li> <li>• BROKER then instructs for the onward delivery of the trade to their client's custody account.</li> <li>• The client acknowledges the trade and takes the position into their accounts.</li> <li>• BROKER is now in a flat trading position.</li> </ul>
<p>Step 3</p>		<ul style="list-style-type: none"> <li>• BROKER sends a broker confirmation to the client.</li> </ul>
<p>Step 4</p>		<ul style="list-style-type: none"> <li>• At the end of the month, an invoice is sent to the client for the brokerage total for their trading activity.</li> </ul>